Better livelihoods through partnership? A review of the impacts of deals between communities and forestry companies on local development

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SUMMARY

At the Earth Summit in Johannesburg in 2002, partnerships were touted as one of the key routes to sustainable development. But can partnerships really deliver improvements to rural livelihoods? This paper reviews one set of claimed partnerships, those between forestry companies and local individuals or communities, to assess the benefits, and the costs, to local livelihoods. Positive local impacts of company-community deals include sharing of risks, better returns to land than otherwise possible, opportunities for income diversification, access to paid employment, development of new skills, upgrading of local infrastructure and environmental improvement. However, company-community partnerships have not yet proved sufficient to lift people out of poverty. They remain supplementary rather than central to income generation. Furthermore, while some partnerships have resulted in greater cohesion and organisation among community groups, there is as yet little evidence of substantial increases in community bargaining power. Ways forward to increase returns to communities (and to their counterpart companies) centre on raising this bargaining power, fostering the roles of brokers and other third parties, and iterative development of equitable, efficient and accountable governance frameworks for partnerships.

Acknowledgements

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INTRODUCTION

Globalisation and localisation as the context for partnerships

At the Earth Summit in Johannesburg in 2002, partnerships were presented as a key mechanism for making progress towards sustainable development on a global scale. Useful modes of partnership are thought to include public-private partnerships, business-civil society partnerships, tri-sector partnerships and company-community partnerships (Ashman 2001, Warner 2001). Over one thousand deals between broad alliances of governments, companies and civil society groups were announced at Johannesburg, with an extraordinary range from multi-billion-dollar water privatization schemes to small-scale programs to improve farming techniques. Corporations played a central role at the Earth Summit, promoting a model of “best practice” based on voluntary initiatives and non-binding codes.

The prevailing fashion for partnerships with the private sector brings both optimism and scepticism. Proponents see them as mechanisms for multi-stakeholder dialogue and coordination, likely to promote better power sharing. Critics rejoin that the types of partnerships most keenly promoted by companies and supporting governments and NGOs are a necessary outcome of neo-liberal orthodoxy aimed at raising market confidence in national economies through balanced budgets, moderate taxes, light regulation and privatisation – plus “partnership” with business. Concerns are widespread that voluntary initiatives such as partnerships are attempting to replace rather than complement regulation and that partnerships are being promoted as an alternative to the global intergovernmental agreements that are needed to tackle global problems such as poverty and climate change (Mayers et al. 2001). Critics also note the tendency to promote partnerships with others as a way of shedding responsibility, for example through sub-contracting (White 2001). Others worry about giving a “social licence to operate” to previously mistrusted players brought into partnership arrangements (Utting 2000).

For communities with forest resources, greater access to markets, capital flows and technology conferred by a globalising economy have at times brought new difficulties as well as opportunities. On the one hand, there is increased opportunity for local groups to exploit their particular comparative advantages (e.g. proximity to the resource, competitive labour costs; integration within local economies) and to gain technology and market access, in order to forward local development according to residents’ needs and aspirations. Forestry is an increasingly viable livelihood strategy for communities, as their rights over extensive forest resources are awarded or recognised (White and Martin 2001). On the other hand, the global market creates pressure to produce forest products at the lowest possible cost, often rewarding cut and run management that lacks inadequate social and environmental investments. Rather than promoting local development, interaction with the global market could lead to the loss of access to capital assets and opportunities, and increase local inequity, while transferring risk from corporations and governments to local people (World Bank 2001).

Globalisation of markets, capital flows and technology is countered in some places by increasing “localisation” brought on by demands for greater decentralisation and democratic local governance. Twenty-five percent of the global forest estate is now...
owned or controlled by indigenous and rural communities (White and Martin 2001). As local people seek to re-claim forest resources from the state, new legislation and policies authorising devolution of forest management is being adopted and implemented around the world. Proven new mechanisms for devolving forest rights to poor communities include: joint forest management agreements (e.g. India and Tanzania), village forest reserves (Ghana and Nicaragua), long-term concessions (Bolivia and Indonesia), household forestry leases (China and Vietnam), conditional handover consonant with government policy (Nepal and Philippines), and complete transfer (Mexico). These mechanisms vary in the security they offer poor people (FAO and DFID 2001). Where tenure rights are clear they allow local people to protect forests against outside encroachment, to increase their local food and forest security, and to enter into business contracts.

Strong relationships between companies and communities – through informal arrangements, company social responsibility schemes, joint ventures and other contracts – might be a route to maximise opportunities for local communities to take advantage of the growing and globalising wood fibre industry, while giving forestry companies a chance to secure forest product supplies at competitive cost and simultaneously respond to mounting pressures for socially and environmentally responsible business practice.

Such a “win-win” scenario sounds good in theory, but some pitfalls have already been noted. What has been the actual experience for community partners who have entered into deals with forestry companies? Are the various kinds of deals able to provide effective mechanisms for local development, and at what cost to local communities and livelihoods? This paper sets out to provide preliminary answers to these questions, and to indicate some of the more promising ways forward for company-community forestry partnerships to work for local development. Cases of failure are presented here to provide lessons to improve the design and implementation of the schemes rather than to discourage those who would like to initiate partnerships. The bulk of the evidence presented here comes from two recent studies, coordinated by the International Institute for Environment and Development (IIED) and the Centre for International Forestry Research (CIFOR) respectively, supplemented by further information from an array of company-community forestry deals reported in research-based and other literature.

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3 There is a relative paucity of literature on the impacts of company-community forestry partnerships on local development. Key insights that have been made in the literature generally focus on contractual outgrower schemes and specific joint ventures. Contracts between companies and farmers to produce timber have been examined by Roberts and Dubois (1996) in India, Brazil and the Philippines. The major Philippines case (PICOP) was further analysed along with the main South African outgrower schemes by Arnold (1997), while Clarke et al (1997) examined South African outgrower schemes and joint equity arrangements in relation to other land uses. Curtis and Race (1998) focused on arrangements made between farm foresters and the wood industry in Australia. Baumann (2000) developed useful lessons for tree growing from contract agricultural tree crop farming, while Desmond and Race (2000) conducted a global questionnaire survey for the FAO, which captured valuable information from 17 wood fibre outgrower arrangements around the world. Recently, Scherr et al (2002) have incorporated some analysis of company-community relationships in a synthesis of the status and prospects of forest market-oriented strategies to improve rural livelihoods.
METHODS

The evidence presented here derives from two concurrent research projects on company-community forestry partnerships\(^4\) at IIED and CIFOR, combined for the purposes of this paper. The IIED study, conducted over three years, started with a global scoping exercise to establish the range of partnership types and to identify a representative group of examples for closer investigation, to include a spectrum of differences in company size, community organisation, forestry practice, policy context, terms of trade and scale of impact. A set of hypotheses and research questions were developed as the basis for primary research in seven countries. The evidence collected in these case studies was supplemented by a review of literature and undocumented experience in 15 further countries. The CIFOR study conducted thorough criteria-based evaluations of three case studies of outgrower schemes in Indonesia, operated by the companies Wirakarya Sakti, Finnantara Intiga and Xylo Indah Pratama. The criteria for assessment were based on CIFOR’s criteria and indicators for sustainable forest management (CIFOR 1999) and research was carried out through semi-structured interviews of key participants in each site. Further details of the methodologies can be found in the IIED and CIFOR project reports (Mayers and Vermeulen 2002; Nawir et al. 2002).

This paper focuses on the implications and outcomes of forestry partnerships for community partners and local development. Readers interested in these partnerships from the perspective of the private sector, third parties (e.g. government and NGOs) and the broader public good will find a more complete discussion in the final report of the IIED and CIFOR Studies. These reports include analyses of: enabling contexts for partnerships; the processes of starting-up, sustaining and dissolving partnerships; the components of contracts and other formalised deals; and broader agendas for action by companies, communities, governments, donors and other third parties.

\(^4\)Definitions:

**Companies** include large-scale corporations through to small-scale private enterprises – the key feature being that they are organised for making profit.

**Communities** include farmers and individual local ‘actors’ as well as community-level units of social organisation such as farmers’ groups, product user groups and cooperatives. When community groups organise for profit, there is an overlap between the categories of ‘company’ and ‘community’ – and partnerships between external and community companies are one of the models discussed in this report.

**Forestry** is the art of planting, tending and managing forests and trees for goods and services. It may be carried out in various forms of land use including dense forest, open woodlands, agroforestry, smallholder woodlots, and commercial scale plantations.

**Partnerships** refer to the range of relationships and agreements that are actively entered into, on the expectation of benefit, by two or more parties. This report uses the term partnership to describe a very wide spectrum of deals, contracts and informal arrangements between companies and communities, which are mainly a means to share risk between the two parties, with third parties playing important supportive roles.

**Company-community forestry partnerships** thus cover the range of partners, forms of forestry and types of relationship mentioned above. In terms of the forest product of such partnerships, this report is primarily focused on the growth and processing of wood and wood-fibre. Thus there is less attention given to partnerships that are organised solely for the development of non-wood forest products and forest services such as watershed protection or carbon storage. However, some of the most interesting partnership types that are covered in this report produce wood plus some of these other forest products and services.
The bulk of the evidence in this paper is from the two countries where most detailed studies have been conducted: Indonesia and South Africa. Unless otherwise cited, all of the findings pertaining to Indonesia in this paper come from the work of Nawir et al 2002, supplemented by two collaborative studies by IIED and the Indonesian Tropical Institute (LATIN), on the Xylo Indah Pratama case (LATIN 2000) and on the tenancy scheme run by the parastatal company PT Perhutani (Gunawan and Muhtaman 2000). The evidence from South Africa is drawn from a series of sub-studies conducted by research partners of IIED (Andrew et al 2000; Cairns 2000; Ojwang 2001; Sisitka 2000; Zingel 2000). The most highly developed company-community partnerships in South Africa and Indonesia are outgrower schemes, and as a result these receive the greatest attention in this paper. However, outgrower schemes are only one category in a wide range of existing arrangements between companies and communities for the production of wood fibre (Table 1). While many of the impacts of partnerships on local development are highly situation-specific, this paper extracts some broad trends and lessons from the full range of partnership types and country experiences.

Table 1. Typology of company-community forestry partnerships

<table>
<thead>
<tr>
<th>COMMUNITIES</th>
<th>Individual land owners / tree growers</th>
<th>Individual tree users</th>
<th>Group of land owners / tree growers</th>
<th>Group of tree users</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COMPANIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forest product buyer, processor (large-scale)</td>
<td>Out-grower schemes for timber, pulp, commodity wood or NTFPs</td>
<td>Product supply contracts</td>
<td>Outgrower schemes</td>
<td>Product supply contracts</td>
</tr>
<tr>
<td></td>
<td>Farm forestry support and crop share arrangements</td>
<td>Farmer out-processing</td>
<td>Joint venture for timber or pulp</td>
<td>Community processing or farmer out-processing</td>
</tr>
<tr>
<td>Forestry concession or plantation owner (large-scale)</td>
<td>Land leased from farmers</td>
<td>Co-management for NTFPs</td>
<td>Concessions leased from communities</td>
<td>Co-management for NTFPs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate social responsibility project</td>
<td></td>
</tr>
<tr>
<td>Small local production or processing enterprise</td>
<td>Credit/product supply agreements</td>
<td>Product supply agreements</td>
<td>Credit/product supply agreements</td>
<td>Product supply agreements</td>
</tr>
<tr>
<td>Environ-mental service company</td>
<td>Forest environmental service agreements</td>
<td></td>
<td>Joint ventures</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Mayers 2000
FINDINGS: IMPACTS OF EXISTING PARTNERSHIPS ON RURAL DEVELOPMENT

Sharing risk
The economic impacts of partnerships on community partners depend first on whether or not a household or family have access to land. For those with land, which can be used in an outgrower or tenancy scheme for example, one of the main attractions of entering into a deal with a forestry company is the opportunity to share the economic risks of using that land. The usual model in outgrower schemes is for the company to shoulder the bulk of market risk while community partners bear most of the risk of production. Some cases, such as the updated Wirakarya Sakti outgrower scheme in Indonesia, attempt a more comprehensive approach to risk-sharing, by setting a benefit-sharing ratio for the final price received for fibre products after the costs incurred by each partner have been settled. However, these kinds of arrangements are difficult to get right and thus are not necessarily more transparent or equitable. The Wirakarya Sakti scheme suffers from poor accounting and assessment of costs on both sides. A particular weakness is the failure of the scheme to factor in the opportunity costs of land borne by community partners.

Certainly, while risk-sharing may be a major incentive for landholders to enter into partnerships, risk is seldom if ever shared equitably between company and community partners. Companies are able to minimise their risk through insurance schemes and/or maintenance of a wide base of outgrowers or tenants, while local landholders have few if any means to mitigate risk independently. As in contract farming, this risk falls most heavily on the smallest-scale and poorest growers (Warning and Soo Hoo 2000). Some contract growing schemes have insurance against fire and other risks to production built into growers’ loan terms (e.g. SAWGU in South Africa), but overall the lack of access to formal insurance remains a serious obstacle to community members reaping the full benefits of partnerships with forestry companies.

Market access
Outgrower schemes work best for communities when conditions for growing trees (soil, climate, quality planting material) are good, and sufficient land is available. Yet even when these conditions are present, market access and development and starting-up cost are often the initial and significant barriers. This is common where selling on the open market is not an option, such as in the Wirakarya Sakti and Finnantara Intiga schemes in Indonesia, or the market is volatile and it may be preferable to have a guaranteed price than get the (probably higher) market price (e.g. Thailand; Makarabhrom and Mochida 1999). When infrastructure, especially access roads, and markets become more developed, companies operating outgrower schemes may lose their local monopolies. Contractual deals between companies and communities then tend to break down, as has happened in the farm forestry industry in India (Saigal and Kashyap 2000). In more open markets, companies are often prepared to provide extension services without purchase preferences, as in India and the USA (Westvaco 2001). On the other hand, if markets become weaker, membership of outgrower schemes can resurge in popularity among community partners. In South Africa, the forestry company Sappi recently introduced a quota system for purchase of timber in favour of outgrower partners, which has encouraged small-scale independent...
producers to sign up. Less competitive markets give companies greater control over the terms of deals with communities.

Thus outgrowing arrangements can be useful to communities as stepping stones to greater and more profitable market involvement, so long as members are not too tightly trapped into unfavourable contracts. Joining an outgrower scheme can be the best way of financing inputs and gaining technical expertise as a new grower as well as gaining access to quality planting material. Outgrower schemes often fail when productivity is overestimated. Lower than predicted harvest prices have been a great disappointment and a trigger for cutting short or defaulting on contracts in South Africa and India. In these scenarios, companies take a larger share of the risk than initially agreed, by choosing not to take legal action against defaulters (e.g. in South Africa and Indonesia), but where institutional structures for small-scale litigation are better developed, as in India, hundreds of court cases – initiated by both company and community partners – have accompanied the demise of a number of formal outgrower schemes.

Types of deals other than outgrower schemes offer mixed economic returns and mixed degrees of access to existing or new markets to community partners. Joint ventures, in which both partners make capital investments under company law, can open up investment options and bring good returns, but require high outlay by both partners. Communities, usually more financially precarious, suffer more than companies when they fail. Tenancy on company-controlled land is worthwhile where households are more limited by land than by labour. This is the case on the Indonesia island of Java, where the parastatal company Perhutani is making first steps to improve its *tumpang sari* (*taungya*) arrangements with local farmers against a background of long-term conflict over land. At a broader community scale, tenancy and land leasing are limited options for economic livelihoods, since there are seldom add-on effects for local employment and market development.

**Improving and diversifying returns to land**

While companies tend to see partnerships as a means of increasing returns to financial capital, landholding community partners are usually more interested in improving returns to land and to agricultural labour. There is evidence from several countries that for many small-scale farmers growing trees under partnership is more profitable, at least in the short-term, than alternative crops. In South Africa, changing conditions in the sugar industry mean that timber outgrowing has become a more viable land use for smallholders than the longer-established sugarcane outgrower schemes (Zingel 2000). Similarly, in Uttar Pradesh, India, net returns from poplar are slightly higher than from sugarcane, and substantially higher than from wheat or paddy rice (Saigal and Kashyap 2000). Outgrowing eucalyptus and bamboo is a more profitable option in Thailand than competing cash crops, in spite of the fact that farmer participants are forced to often sell at below the market price (Makarabhirom and Mochida 1999). On the other hand, the general long-term stability of prices of wood fibre compared to agricultural crops is less certain.

Many small-scale farmers are attracted to outgrower schemes as a source of the financial, technical and labour inputs that make it possible to bring under-utilised land into more profitable production. In the three Indonesian case studies, involving the companies Wirakarya Sakti, Xylo Indah Pratama and Finnantara Intiga, community
partners saw partnerships as an opportunity to use land, especially *Imperata* grasslands that are difficult to rehabilitate, which they otherwise did not have the capital to clear, plant and manage. Similarly, in South Africa, two socio-economic groups were found to dominate the membership of outgrower schemes in Kwa-Zulu Natal: wealthier families with large landholdings, eager to develop a portfolio of livelihood options, or else older people, keen to access substitute labour. Patterns like these have clear implications for local equity. Company-community deals open only to larger landholders will entrench rather than mitigate differences in income and economic opportunity. Contract tree-growing schemes often have onerous criteria for inclusion such as minimum landholdings, adequate family labour, farming qualifications or proven familiarity with the crop (Baumann 2000). Farmers whose land is further from roads or points of sale have also found it more difficult to enter into or get adequate returns from outgrower schemes (e.g. South Africa).

Outgrower schemes exclude landless people from membership altogether. There can also be knock-on effects on those who have share-cropping or tenancy arrangements: in some cases landlords have thrown tenants off their land in order to enter into contract schemes to grow tree crops (Baumann 2000). Tenancy-based partnerships with forestry companies can also be biased against the poorest and landless members of the community. In the Perhutani scheme in Indonesia, wealthier households with better social connections are more likely to be allocated plots than the poorest who most need access to land (Gunawan and Muhtaman 2000). Contract farming has also been accused of taking too much land out of food production, but field research shows that effects on households’ choices of crops, and ultimately on their nutrition, are seldom due primarily to contract farming (Glover and Kusterer 1990; Ojwang 2000).

**Savings, loans and diversification**

Trees are an important form of savings and informal collateral for low-income households (Chambers and Leach 1987). Outgrower schemes offer good opportunities to establish these kinds of savings, one of the most attractive features for community partners in Indonesia and South Africa. In Kwa-Zulu Natal, the prospect of a lump sum of cash at harvest is the single major incentive for joining outgrower schemes (80 - 90 % of respondents in several surveys, compared to less than 5 % for minor incentives). The savings function of trees is made secure by the fact that tree-growing is usually an additional rather than primary source of household livelihoods. Some households in South Africa report that they are substituting cattle with contract-grown trees as their main form of savings (Cairns 2000).

Company-community forestry deals can foster local development through the credit that companies extend to community partners. Loans from companies allow the poorest of landholders to join outgrower or tenancy schemes by providing funds for inputs and labour. But these gains need to be offset against the long-term debt and tying up of options for farmers. In South Africa, for example, a sizable proportion of wood fibre outgrowers have harvested early, before maximum profits could be achieved, because of their anxiety at mounting debts to the company. Some companies try to mitigate this risk for farmers by promoting mixed cropping systems to give farmers income in the early years before trees are harvested. Intercropping of this kind has met with some success, especially where community partners have free choice of secondary crops.
Opportunities for employment and self-employment

The best arrangements for community partners are those that allow most choice and opportunity for diversification not only in land use, but more broadly in livelihood options. Companies can provide employment and spin-off economic opportunities to both formal partners and the broader community. Some companies make contractual agreements to employ staff from local communities. Overall impacts on employment levels and local satisfaction with these arrangements are difficult to quantify, however, and may in fact often be exaggerated. For example, one of the heralded successes of the Prima Woods land-lease deal in Ghana has been local employment, but in practice the number of jobs is minimal. In Canada, where the main policy imperative behind company-community partnerships is employment creation, the record has been better. Training schemes and guaranteed employment are components of most deals (NAFA and Institute on Governance 2000). The South African government places the same emphasis on employment creation in its approach to company-community forestry partnerships, but thus far the variety of joint ventures, community plantations and outgrower schemes have not delivered jobs locally and compare unfavourably with the sugar industry for example.

As in most industries, the more profitable areas of the wood fibre industry are in processing rather than production. Company-community forestry partnerships have not progressed far in sharing downstream activities and benefits beyond local transport and sawmilling. Thus communities remain excluded from some of the most promising options for rural development. But there have been some spin-offs of company-community deals in terms of new income-generating opportunities locally. In South Africa, local residents have become self-employed, individually or in small cooperatives, as labour contractors, chainsaw operators and transport contractors. In the Wirakarya Sakti scheme in Indonesia, demand for acacia seedlings by the company has given rise to a sideline industry in collecting and selling seeds, which provides employment for men (who climb trees to collect seeds), women and children (who sort seeds). One of the most promising features of company-community deals in Canada is the emergence of all sorts of locally based forestry enterprises, including value-added processing of wood products, haulage, road building, GIS mapping and fire control. However, a high proportion of these companies fail and the cautionary tale for hopeful community-based enterprises elsewhere is to take care not to price themselves out of competitive advantage – as some First Nations businesses have found when staff have become more skilled and able to command higher wages (NAFA and Institute on Governance 2000).

Companies’ investments in local human capital can be a useful route to development for rural communities. As well as the onsite training and advice in silviculture and land management offered in most outgrower and tenancy deals, companies often provide additional capacity building. Canadian forestry companies have mentoring schemes with community-based enterprises to give training or tips on business skills such as preparation of bids (NAFA and Institute on Governance 2000). In South Africa, business training is also included in some schemes, but so far only on an ad hoc basis. Local entrepreneurs eager to provide services (e.g. chainsaw operation) to outgrower schemes point out that one of their main barriers is insufficient business know-how.

Working conditions for direct employees within company-community deals tend to be
poor. People employed to plant and weed the Perhutani scheme in Indonesia receive low and erratic wages – not surprisingly, the work attracts only the poorest of local residents. Similarly, in South Africa, people working as labour contractors and chainsaw operators in the Kwa-Zulu Natal outgrower schemes were drawn mainly from most vulnerable socio-economic group, giving them much needed access to household income, but under restrictive and insecure terms. Around the world, contract labourers involved in dangerous forestry work often do so without adequate safety precautions, and without personal insurance. Most employment is offered on the basis of short-term contracts, so that regulations on leave, pensions, rules of dismissal and unemployment benefit are not applicable. In Indonesia, for example, employment opportunities tend to be limited to the early, most labour-intensive, years of plantation development. Even within partnerships, the forestry industry remains a risky and unrewarding employment option for most rural people.

**Infrastructure and community development**

Company-community deals can contribute to better physical assets with little cost or risk to community partners. Some relate to forestry directly – loans of machinery in Canadian ventures or building of access roads, input supply depots and weigh bridges in South Africa – but they can also benefit the community at large. An unforeseen benefit of the depots in South Africa, for example, has been improved access to water for local families who are allowed to use onsite water supplies. Investment in local infrastructure is particularly a feature of corporate responsibility agreements, as in Ghana where communities have gained electricity lines, school classrooms and boreholes. What rural people often value most are better roads and communications. The main reason that local residents welcomed the initial Wirakarya Sakti scheme in Indonesia was the promise of a company-built road that would give them improved access to markets for all of their forestry and agricultural products.

Many company-community deals, ranging from corporate responsibility agreements to outgrower and tenancy schemes, include provisions for general community development, usually in the form of social funds extended by the company. These can provide much needed infrastructure (e.g. Ghana) or long-term development projects such as grazing schemes and company-sponsored schools and literacy classes in South Africa. In situations characterised by conflict between companies and communities, social spending can be an essential tool for companies to manage social risk. But while these kinds of initiatives are often presented as routes to local empowerment, their economic and institutional impacts are usually low. In Indonesia, social funds provided by companies tend to be paltry, unpredictable and with only limited democratic control by community. One relatively ambitious approach is the formation of decision-making Community Development Groups by Finnantara Intiga, but these remain inactive, struggling with high levels of distrust from the community members towards company staff in the groups (Tim Dimas 2000).

**Local environmental impacts**

Planting trees on land that is marginal for other crops, and low in valuable biodiversity, is considered environmentally beneficial by most people – especially in modern company-community arrangements, which encourage mixed cropping and multi-purpose land management. Tree-growing arrangements can bring greater diversity in local land-use and products for subsistence and sale, and simultaneously
provide micro-level protection against wind and rain erosion (e.g. in India where small-scale planting on contours and field boundaries is common). These benefits can outlive the partnership itself, as in the Philippines where, following the demise of the long-standing PICOP outgrower scheme, farmers in Mindanao are continuing to plant trees of the species provided for free by the company in earlier years (A. Nawir, personal observation 2000). Specific terms in deals between companies and communities can also foster improvements in environmental management. For example, reduced impact logging is often a condition within corporate good practice agreements between timber concessionaires and rural communities (e.g. in the legally binding Social Responsibility Agreements in Ghana).

But forestry operations are not without their hazards, as governments, farmers and forestry companies alike acknowledge. Outgrower schemes can function not only as a transfer of production risk to small-scale farmers, but also environmental risk. For example, farmers in South Africa and Andhra Pradesh, India, have reported reduced streamflow downstream from eucalyptus plantations, affecting water supplies for agriculture and household use. The expansion of South African outgrower schemes is limited now by the government’s water permit system. In other cases, management systems under company-community deals may bring specific risks, such as greater chances of fire under widely spaced or monocultural plantations, or the rampant spread of weedy non-indigenous species like the wattle. Land planted with trees carries environmental opportunity costs to communities, leading to paradoxical situations such as the “lack of firewood in a sea of trees” in the eucalyptus-outgrowing areas of South Africa (Carrere and Lohmann 1996 cited in Cairns 2000), or even to severe land disputes, particularly between tree-growers and pastoralists.

Deals between logging companies and landholding communities often provide new opportunities for large-scale logging in natural forest, a major concern among environmentalists in Papua New Guinea and Canada. Sometimes the primary, if unstated, reason for logging natural forest is to clear-fell the land to set up large-scale monocultures – oil palm in South-East Asia is a case in point. Company-community partnerships can promote this narrow path for local development by providing strong incentives to log natural forest. For example, the lease-lease-back system in Papua New Guinea, developed to give communities legally secure means to enter into joint ventures with plantation and logging companies, has the danger of easing the access of unscrupulous corporations willing and able to make inequitable and environmentally harmful deals with local elites (Hunt 2002).

**Individual and collective rights**

Deals with forestry companies can help community partners to strengthen their land rights. In Indonesia, the process of clarifying the tenurial status of lands to be managed under outgrower schemes has indirectly led to more recognition of long-term use rights or other claims, clearer boundaries between community members’ lands and mechanisms for settling community land disputes. In South Africa, company-community partnerships have paved the way for communities to acquire new land under sale agreements for state assets and to secure individual use rights within the communal tenure system. Many of the women who have joined outgrower schemes in Kwa-Zulu Natal were motivated primarily by the opportunity to assert rights over that land in the event of their husband’s death.
In both South Africa and Indonesia, however, individual rights have been far easier to claim and to build on than communal rights. Companies may respect community rules and customs, for example by respecting the integrity of sacred areas, particularly within the terms of social responsibility agreements. But low levels of community cohesion and inconsistencies between community and state laws, coupled with companies’ generally low capacity to understand and respond to social dynamics, work against deals between companies and “communities”. Companies currently find it easier, legally and operationally, to make deals with individuals than with broader organised community groupings. Community-level schemes in South Africa have not made much headway so far, though there has been more success among equivalent initiatives in other countries, such as Zimbabwe (Desmond and Race 2000) and Guatemala (Del Gatto 2000). Unfortunately, there is little evidence regarding the impacts on local rights and outcomes. One threat is that, as in the rise of social forestry in India and Nepal, access to common lands by the poorest members of the community can become more restricted once the land gains value to wealthier residents.

Company-community forestry partnerships can of course exacerbate local social conflict. In South Africa, for instance, outgrower schemes can allow more flexible and efficient allocation of household labour, but increase conflict within households between women, who supply most of the work, and men, who reap most of the financial rewards. Broader scale conflicts exist between outgrowers and pastoralists. Youth, who fear that outgrowing threatens their future access to land, have in the past looted, vandalised and burnt plantations. Joint venture tree-planting projects can also be an easy arena for local political battles, sometimes with destructive outcomes (G. Harrison, personal communication 2002). But with care partnerships between companies and communities are capable of soothing rather than igniting conflict. In Indonesia, where forestry companies have a poor record of interactions with rural communities, companies with outgrower schemes have established themselves as industry leaders in acknowledging and putting in place some kind of accountability towards communities.

**Strengthening bargaining power and policy influence**

One of the biggest challenges for companies in partnerships is to keep the costs of interacting with a large number of small-scale community partners to a minimum. One of the most widespread mechanisms to reduce transaction costs is initiation of outgrowers’ or tenants’ groups. Set up by companies themselves for administrative purposes, these groups function to coordinate meetings and training, and to allocate quotas and payments. They lack real power since they lack the capacity to engage with policies and institutions that affect their livelihoods. In Indonesia, outgrowers’ groups do not yet have the capacity to engage effectively, and companies can take advantage of this to retain the bulk of power within the deal. To date there is little evidence that farmers’ groups in either forestry or contract farming (Baumann 2000) have become platforms for collective action, either to negotiate with companies or to organise around other issues.

Well organised representation of the interests of community partners has occasionally emerged in deals, but it does not appear that the existence of deals is what promotes development of bargaining power among community groups. The best progress has been made in countries that already have strong traditions of political and labour
organisation, such as Canada and Mexico. Another good basis for bargaining power is effective control over resources of importance to the company. A pertinent example comes from Indonesia, where the tourism cooperative Kompepar in Kuningan used this power to negotiate a management deal with the company Perhutani, effecting a win-win outcome in which revenues have increased for both sides. Successful partnerships can go on to use their alliance as a foundation for bargaining with third parties. For instance, Sappi and Mondi in South Africa have used their outgrower schemes to lobby government for more rural roads, and the Canadian joint venture Babine won a substantial government research grant on the basis of its partnership (Babine 2001).

One of the key routes to greater bargaining power among communities is alliance with broader-scale cooperatives, federations and trade unions. In South Africa, the union SAWGU and the growers’ cooperative NCT have been important players in the wattle industry nationally, providing an interesting contrast to the eucalyptus industry, in which companies deal exclusively with small-scale outgrowers’ groups rather than any higher-level body. South African eucalyptus outgrowers’ groups have been unable to negotiate with companies for better terms of contract (for example bigger advance payments) or relative advantages over other sectors in the eucalypt industry (better prices from the mills, allocations of quotas between large and small growers). Growers who join NCT benefit from a more democratic decision-making structure, more suitable contractual terms and maximised returns, since the cooperative seeks the highest prices for its members’ product, but at the cost of reduced technical, financial and infrastructural support compared to that offered by companies operating eucalyptus outgrower schemes.
CONCLUSIONS

Company-community forestry partnerships for poverty reduction and livelihoods

Taking a broader look at the impacts of company-community forestry deals on local livelihoods, is there any evidence that deals have made significant contributions to helping people out of poverty? Overall, the evidence is thin. The most detailed analysis, from South Africa, shows that outgrower schemes deliver significant financial returns to those participating, as well as providing an important knock-on effect in generating income for contract workers. But these schemes do not provide sufficient returns on their own to lift household incomes above the poverty line. On average it is estimated that the schemes in South Africa contribute up to 45%, but usually closer to 15%, of the income needed to stay above the poverty line. Deals with companies can be useful to poor people, but as yet are not proving sufficient to provide long-term buffers against vulnerability and a low standard of living. To date, there is little evidence that partnerships with forestry companies can or do have positive impacts on local equity. Differences among households in wealth may in fact be reinforced by some kinds of partnerships, for example outgrower schemes that exclude the landless altogether, or discriminate against those who find it difficult to meet entry criteria.

Of course, poverty has dimensions other than level of cash income, or economic factors in general. People’s livelihood strategies are made up of more than just economic goals, and what they look for in deals with forestry companies reflects this. Ostensibly straightforward business motives for entering deals might conceal far more complex strategies to gain social standing, strengthen land claims or take advantage of the environmental services that trees provide. Furthermore, people make decisions and respond to outcomes not just as individuals, but as members of groups and communities. To date, the impacts of company-community forestry partnerships on community-level development are largely positive, but inequitable among households and individuals. An outstanding concern is the extent to which the rights of the very poorest (e.g., access to common land, gleaning rights) can be protected within company-community deals.

To make a broad generalisation, company-community forestry partnerships tend to have greater net benefits for local development than does community forestry or company forestry without the opportunity of partnership. Livelihood options are enhanced where communities have the choice of formal or informal arrangements with the private sector compared to scenarios where small-scale farm forestry is isolated from the broader industry (e.g., in South Africa, where deals with companies and large-scale cooperatives offer better sales options than alternatives) or where commercial forestry operations ignore local priorities for development (e.g., in Indonesia, where companies operating outgrower schemes offer better outcomes for local people than plantation companies operating locally without such schemes). Even where company-community deals are far too inequitable and unstable to be considered “partnerships” in any normative sense, they can nonetheless provide community partners with a crucial stepping-stone – in terms of market access, skills development and credit facilities, among other advantages – to economic and political empowerment in the longer term.
WAYS FORWARD

For company-community forestry partnerships to thrive requires terms of agreement that benefit both community and company partners. Longevity is not a necessary measurement of success in partnerships, but mutually beneficial relationships will depend on the sustainability of the deal in social, economic and environmental terms. Sustainability requires real returns to both partners, and thus partnerships will only work when both companies and communities enter into agreements on the basis of sound predictions of economic returns. Partnerships designed primarily to improve a company’s public image, for example, cannot achieve the success of deals based on robust benefits to business and local livelihoods (Table 2). Other important principles for better company-community deals include a set of mechanisms for iterative development of equitable, efficient and accountable governance frameworks to establish and develop partnerships. Deals are strongest where there are clear joint decision-making mechanisms and the main elements of the deal, usually in the form of a written contract, are co-developed and periodically re-negotiated. The case studies in Indonesia point to a generic flowchart that is useful for companies to follow (Figure 1). Negotiation processes are where trust, confidence and complementarity between partners originate.

Profits in the wood fibre industry mainly come from processing rather than production. If community empowerment is to be a central objective of forestry partnerships, and equitable inputs and benefits a general principle, then attention needs to be given to arrangements for revenue sharing and share ownership in downstream processing, which presently tends to operate within capital-intensive enclaves of foreign technology. Much can be learned from the wattle industry in South Africa, where small growers’ access to profits from the processing sector has come about through share ownership in the tannin extract factories, arranged by the union SAWGU, rather than through the ability of associations to negotiate better prices from the markets. Furthermore, in the longer-term, to secure their production base, companies will need to contribute to provision of goods and services other than fibre. Community partners will need to seek broader joint venture initiatives, in order to break into the more profitable sections of the fibre industry and to manage risk through a broader portfolio of forestry products and activities (Scherr et al. 2002).
Table 2. Ten principles for better company-community deals

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<td>1.</td>
<td><strong>Mutual respect</strong> of each partner’s legitimate aims</td>
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<td>2.</td>
<td><strong>Fair negotiation process</strong> where partners can engage and make informed, transparent and free decisions</td>
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<td>3.</td>
<td><strong>Learning approach</strong> – allowing room for disagreement and experimentation, treating deals as learning processes</td>
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<td>4.</td>
<td><strong>Realistic prospects of mutual profits</strong> – requires work to accurately predict and secure partner benefits commensurate with their contributions</td>
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<td>5.</td>
<td><strong>Long-term commitment</strong> to optimise the returns from deals as strategic commercial, as well as socio-cultural and environmental, ventures (e.g. overcoming short term risk aversion caused by rises and falls in pulp markets) – since both trees and trust take a long time to develop</td>
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<td>6.</td>
<td><strong>Equitably shared risks</strong> – accurate calculation and sharing of risks in production, market, social and environmental terms, planning for a mix of short-, medium- and long-term benefits and a range of low, medium and high risk investment opportunities, to attract both cautious and bold partners</td>
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<td>7.</td>
<td><strong>Sound business</strong> – practical business development principles at the core, not exploitative relationships, not public relations exercises</td>
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<td>8.</td>
<td><strong>Sound livelihoods</strong> – relationships focused on increasing capital assets of the poor, securing local rights and responsibilities, developing the capacities and comparative advantage of local institutions, and incorporating flexible and dynamic implementation paths</td>
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<td>9.</td>
<td><strong>Contribution to broader development strategies</strong> and programmes of community empowerment, and integration or nesting of partnerships within wider national and local land use and development frameworks</td>
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<td>10.</td>
<td><strong>Independent scrutiny and evaluation</strong> of partnership proposals and monitoring of progress</td>
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source: Mayers and Vermeulen 2002
Poor people’s use of forests is often subject to a disproportionate burden of regulation compared to larger-scale private sector and government-run forestry operations (DFID and FAO 2001). The global corporate accountability movement is making headway in corporate social and environmental responsibility, but can add to the unfair burden on poorer forest users by setting standards of practice that are too difficult or expensive for small-scale operators to meet. There is a need to assess the implications of factors such as advantages of corporate scale and the commercial predisposition to drive out competition. Forms of enterprise partners beyond the limited liability company should be given greater attention. For example, cooperatives have a long history, sometimes vast memberships, and much to offer with their values of self-responsibility, democracy, equity and solidarity. Governments are in the position to enable a broader set of legalised business frameworks suitable for community groups and small-scale entrepreneurs. The notion of social responsibility should encompass the full range of business organisations so that the focus is “enterprise” responsibility rather than “corporate” responsibility.

Brokers and other third parties can be instrumental in improving the outcomes of forestry partnerships to local livelihoods. Partnership development agencies of various kinds are useful in many ways: to kick-start mutually responsive relationships between communities and companies, to generate and spread physical, social and economic analyses, to facilitate negotiations, to provide legal advice and arbitration services, and to lobby for broader policy and infrastructural development. Rural development organisations, such as Lima which manages one of the Mondi outgrower schemes in South Africa, can enable partnership arrangements that are far more attuned to local needs and priorities than direct company-run schemes (Cairns 2000). Similarly, non-forestry community development institutions, especially those
developed for local micro-finance (savings and credit schemes, trust funds and foundations), are an important route for brokering deals and securing independent means of managing risk for small-scale growers who have little or no access to formal insurance schemes. Banks and insurance companies may want to explore the potential of the small-scale timber market, and governments can help by providing incentives to engage with community partners.

Some companies seek to retain the greater share of power in deals with community partners, but ultimately more equal partnerships work better for both partners – a company is at far less risk with a partner who is less likely to defect and more able to be held accountable. To achieve more equal deals, communities need to improve their bargaining power. Fundamental to this is collective action, which can be organised through many different kinds of fora, such as growers’ associations, community councils, national unions or marketing cooperatives. Community partners need to be able to negotiate effectively not only with their partner companies, but with an array of third parties, such as local government departments, credit agencies and development organisations. Also, communities will be best placed to improve the terms of partnerships with companies if they also wield some influence over relevant policy processes. Different objectives for negotiation will demand different strategies for collective action. For example, experience in South Africa highlights the need for small-scale growers to federate at the national level in order to influence central government policy such as the water permit system. Self-organised groups that are representative and accountable have the capacity not only to improve the impacts of forestry partnerships on local development, but also to work as a mechanism for more general community empowerment.
REFERENCES


