Chapter 7

TOWARDS MUTUALLY BENEFICIAL PARTNERSHIP IN OUTGROWER SCHEMES: LESSONS LEARNED FROM INDONESIA

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Background and the purposes of this study

Outgrower scheme initiatives in Indonesia have occurred particularly in response to rapid changes in the sociopolitical situation in Indonesia. This situation has influenced forestry plantation industries to practise more socially oriented management in daily operations, and also in the same time as a way to secure company wood supplies. Despite the emerging private initiatives on outgrower schemes, companies do not generally have a clear idea on the mechanisms that would work best in the field and to what extent participatory approaches could be used in ensuring a full commitment from the landowner/tree grower partners without jeopardizing the companies’ economic principle of cost efficiency.

The main aim of this Center for International Forestry Research (CIFOR) study was to conduct a socio-economic analysis of the existing outgrower schemes in Indonesia so that key elements for mutually beneficial partnership can be identified to improve long-term viability of the schemes. Specific research questions developed in this research are:

Have the schemes been effective in ensuring mutually beneficial partnership for key stakeholders?

What are the lessons learned that identify key elements for establishing mutually beneficial partnerships?

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8 This summary paper was mainly taken from the full paper under the same title by the same authors, which is a forthcoming CIFOR publication (2002).

9 The authors would like to thank Philippe Guizol, Christian Cossalter, Ken MacDicken, and Rosita Go (CIFOR staff); all of the external reviewers; private companies partners (Wira Karya Sakti, Finnantara Intiga and Xylo Indah Pratama); and the team from the Faculty of Forestry at Bogor Agricultural University.
This study intends to provide comprehensive understanding to the private timber plantation companies, or to those implementing outgrower schemes, or to those who might wish to initiate feasible outgrower schemes by considering the expectations from small-scale tree landholders or tree grower partners. This study was conducted in collaboration with three private companies: two Indonesian companies, Wira Karya Sakti-WKS and Xylo Indah Pratama; and Finnantara Intiga, a joint venture company between Inhutani III – State Enterprise (33 percent shares holding) and Stora Enso (Nordic Forest Development Holding Pte Limited) – Finland Company (67 percent shares holding).

Analytical framework

The concepts of comanagement, and participation were core ideas to bring forward the framework of analysis in this study, especially to design the principles, criteria and indicators of mutually beneficial outgrower scheme partnership. The prerequisites for mutually beneficial partnerships are that:

- Partnerships be commercially feasible under a long-term partnership contract;
- There be a mutually beneficial arrangement, whose development is based on fair contractual agreement determined by fair valuation of shared inputs for mutual economic and social objectives, and a full understanding from both parties upon the potential consequences and risks by joining the partnership;
- Mutual economic and social objectives be included in the arrangement;
- The process to achieve the objective is in line with the approach of the comanagement concept that participation be one of the key principles.

The set of mutually beneficial outgrower schemes is referred to in CIFOR’s Criteria and Indicators Generic Template on Sustainable Forestry Management (CIFOR C&I Team 1999) and Criteria and Indicators for Sustainable Plantation Forestry in Indonesia (Muhtaman et al., 2000). Company staff and tree grower partners of case studies were identified and interviewed about the managerial, social, and economic aspects of the schemes’ implementation, based on set of questions developed from the analytical framework.

Motivations of company and landowners

Company motivations vary from seeking a substitute for naturally grown timber or ways to plant claimed areas inside the concessions, or improving its reputation. The landholders’ motivations are mainly driven by the aim to utilize idle lands (both marginal and good quality lands) and to have extra income in the future (Table 7.1).
Table 7.1. Motivations of the company to initiate, and landowners to join, the outgrower scheme

<table>
<thead>
<tr>
<th>Key partners</th>
<th>Key partner’s motivations to collaborate under the four schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wirakarya Saktia</td>
</tr>
<tr>
<td></td>
<td>Schemes inside concession areas&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Landowners</td>
<td>Utilizing lands that had been in long-term conflict with the company</td>
</tr>
<tr>
<td></td>
<td>Expecting extra income in the future</td>
</tr>
<tr>
<td></td>
<td>Finnantara Intigaa Scheme</td>
</tr>
<tr>
<td></td>
<td>Schemes on communities’ private lands&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Xylo Indah Pratama Scheme</td>
</tr>
<tr>
<td>Company</td>
<td>Utilizing community areas inside the concessions which have been the subject of long-term conflicts</td>
</tr>
<tr>
<td></td>
<td>Responding to community’s request</td>
</tr>
<tr>
<td></td>
<td>Developing plantations under partnership with community</td>
</tr>
<tr>
<td></td>
<td>Acknowledging the local communities’ rights</td>
</tr>
<tr>
<td></td>
<td>Managing logged over lands</td>
</tr>
<tr>
<td></td>
<td>Maintaining the sustainability of wood supply (Alstonia sp.)</td>
</tr>
<tr>
<td></td>
<td>(The company is currently buying the wood from naturally grown trees)</td>
</tr>
</tbody>
</table>

Notes:
-<sup>a</sup> Timber plantation concession holder.
-<sup>b</sup> Wirakarya Sakti Forestry Plantation Partnership Scheme.
-<sup>c</sup> Wirakarya Sakti Farm Forestry Partnership Scheme, which was initially developed under the Farm Forestry Scheme.
-<sup>d</sup> Non-concession timber plantation company.

Companies’ long-term motivations are:

- To establish secure plantation operations by minimizing the economic risks through building good social relations with the communities;
- To gain better credibility at the national and international levels (public relations objectives); and
- To be eligible for the wood certification scheme. Xylo Indah Pratama has been successfully certified by Smart Wood and has maintained it for the last five years.

Outgrower scheme arrangements: company dominating processes

Varied arrangements were driven by company motivation and objectives in initiating schemes. Similarities of company responsibilities include the financial commitments to bear all costs in establishing plantations, and the obligations to conduct community organization, training in technical skills, and other extension programmes. In return, companies secure access to jointly managed lands and planted timber crops by placing responsibilities (in relation to access) in the hands of landowners/tree growers. Furthermore, the companies had the privileges to decide on the buying prices (or royalty rates) for harvested timber and wage rates for labour in the plantation areas.

Landowners/tree growers were responsible for securing company access to the outgrower scheme areas by not transferring the landownership (unless the right to harvest remains with the company) to other people, and by maintaining and protecting the planted areas from theft and fires. In the case of initial capital funded from loans, the landowners as a group were responsible for paying back credit. In return, individually, landowners/tree growers have the rights to receive a certain proportion of net revenue from harvested timber crops (Table 7.2).
### Table 7.2. The designs of the case study outgrower schemes

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Programmes on outgrower schemes areas</th>
<th>Other incentives as part of the partnership programme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Main</td>
<td>Other</td>
</tr>
<tr>
<td>Wira Karya Sakti Forestry Plantation Partnership Schemea</td>
<td>90 percent of the areas were used for <em>Acacia</em> plantations</td>
<td>On 10 percent(^b) of the ‘areas, the company has initiated farming programmes of short-term crops such as <em>patin</em> (local fish) and corns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community organization by forming the Forest Farmer Cooperative from the existing Farmer Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social funds(^e)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Field training</td>
</tr>
<tr>
<td>Finnantara Intiga Schemea</td>
<td>95 percent of the areas were used for <em>Acacia</em> plantations</td>
<td>On five percent of the areas, high-yielding rubber trees were planted 10 percent(^d) of the <em>Acacia</em> plantations used by the company for planting native species</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community organizing by forming Community Development Group <em>(KUB-Kelompok Usaha Bersama)</em>, and field training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social funds(^e)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incentives for conducting a traditional ceremony prior to land clearing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Agro-forestry programme: establishing dry rice fields on five hectares &quot;<em>dusun</em>&quot; (subvillage) in plantation areas in the form of credit assistance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wet rice field intensification programme: two hectares &quot;<em>dusun</em>&quot; (subvillage)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit and savings programme managed by Community Development Group</td>
</tr>
<tr>
<td>Wira Karya Sakti Farm Forestry Partnership Schemeb</td>
<td>90 percent of the areas were planted by <em>Acacia</em></td>
<td>On 10(^d) percent of the areas, the company initiated farming programmes of short-term crops such as <em>patin</em> (local fish) and corns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community organizing by forming Forest Farmer Cooperative from the existing Farmer Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social funds(^e)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Field training</td>
</tr>
<tr>
<td>Xylo Indah Pratama Schemec</td>
<td>All of the scheme areas were planted by <em>Alstonia</em></td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Company responded to tree growers’ requests for company assistance in providing seeds for cash crops such as soybean</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Company responded to tree growers’ requests for company assistance in providing seeds for cash crops such as soybean</td>
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<tr>
<td></td>
<td></td>
<td>Company responded to tree growers’ requests for company assistance in providing seeds for cash crops such as soybean</td>
</tr>
</tbody>
</table>

Notes:
- a A partnership scheme between a company of timber plantation concession holder and land claimers/owners residing in the concession areas. This was initiated in 1999/2000 with a 43-year term of contract. The first harvesting is expected in 2008.
- b A partnership scheme between a company of timber plantation concession holder and landowners on the surrounding plantation areas outside the concessions. This was initiated in 1999/2000 with a 43-year contract (initially was initiated in 1995 under the Farm Forestry Scheme with eight years contract). The first harvest is expected in 2003.
- c A partnership scheme between company of non-concession timber plantation and private landowners was initiated in 1995. The first harvest is expected in 2005.
- d Based on government regulation on the composition of main crops (90%) and other crops (10%).
- e Social funds are provided in response to local community requests for financing social occasions.

**Starting-up: socialization processes and land status clarification**

The socialization process was “the main entrance door” for the company to generate local landowners’ interests in joining outgrower schemes. Partnership programmes in establishing timber plantations were not familiar to most of the potential partners.

Therefore, companies had to convince landowners and also accommodate the needs of landowners or tree growers, such as providing options for income during the grace period. This option would ensure a full support from company’s partners towards the main programme of growing timber trees. During the initiation process, the company holds several meetings at the village or *dusun* (subvillage) levels to explain the proposed scheme and how landowners would benefit by participating (an example of benefits among others were income diversity options initiated by company, and available incentives). Local government authorities were also involved as mediators between the company and the community.
Overall, identified socialization processes were the combination of the three approaches:

- Taking advantage of marketing strategies (Xylo Indah Pratama Scheme);
- Involving third parties, such as local government officers at various levels (Wira Karya Sakti Schemes), or forming a task force (Finnantara Intiga Scheme); and
- Involving the local community group, e.g. The farmer group or forest farmer cooperative (previous WKS-Hutan Rakyat Scheme, Xylo Indah Pratama Scheme).

To avoid any potential conflict in the future that could have financial implications, the company ensured the lands under outgrower schemes were free from conflict by setting required processes for potential tree grower partners to follow. From the tree growers’ perspective, this process has indirectly led to greater recognition of their long-term land-user rights or land status. Figure 7.1 describes the processes.

**Figure 7.1 Processes required to clarify the status of jointly managed land in outgrower schemes**

![Diagram of processes required to clarify the status of jointly managed land in outgrower schemes]

**Notes:***

1. Mainly applied when the initiatives to join the partnership come from landowners
2. Company policy and perceptions on land status categories determined types of papers accepted in the partnership scheme.
3. The Memorandum of Understanding (MOU) set out the understanding that both parties agreed to start an outgrower scheme to establish a timber plantation. If historical conflicts emerged strongly and the outgrower initiative was a solution to settle the conflict, signature from a higher-level authority was required (e.g. Minister of Forestry).
4. A Letter of Authority explained that the landowners had agreed to hand over the lands and/or appointed the company to represent them on their behalf to decide any related matters.
5. Company staff, together with the landowners or appointed representatives, measured and defined the land boundaries. Finnantara Intiga used the Digital Aerial Survey to define the potential areas for plantation development.
6. The process to sign the contractual document between representatives from the company and landowners, and witnessed by representatives of government authorities.

**Assessing the commercial feasibility of the scheme**

**Estimated wood volumes**

To estimate the potential share of woods that will be produced from outgrower scheme areas, calculation was based on planting realization of outgrower scheme areas and estimated volume per hectare (except for Wira Karya Sakti Scheme inside concessions; see notes following the table), and used the sensitivity analysis as the next step to provide a range of estimation figures. Table 7.3 provides the estimation of woods produced under the three schemes. All three schemes are could become potential reliable wood sources.
## Table 7.3. Estimated wood volumes on outgrower scheme plantation areas

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Estimation of harvested areas per year(^a) (ha)</th>
<th>High estimation of harvested wood volume(^b)</th>
<th>Modest estimation of harvested wood volume(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Volume per hectare (cum)</td>
<td>Total harvested volume (cum)</td>
</tr>
<tr>
<td>WKS scheme inside the concessions</td>
<td>10,296(^d)</td>
<td>150</td>
<td>1,544,400</td>
</tr>
<tr>
<td>WKS schemes on private community lands</td>
<td>1,644(^e)</td>
<td>150</td>
<td>246,556</td>
</tr>
<tr>
<td>Finantara</td>
<td>5,993(^f)</td>
<td>150</td>
<td>898,950</td>
</tr>
<tr>
<td>Xylo scheme on community lands</td>
<td>1,350</td>
<td>260</td>
<td>396,500</td>
</tr>
</tbody>
</table>

Notes:

\(^a\) Based on planted realization data during the implementation years of each scheme.

\(^b\) Based on estimated wood volume per hectare as used by companies in the Feasibility Study.

\(^c\) For Acacia, based on the lower estimation of wood volume per hectare, by approximately 50%. For Alstonia, based on company approximation of the actual harvested volume.

\(^d\) Based on potential area of 82,368 ha (owing to no realization on planting up to 2000), which will be managed in eight blocks, one block of 10,269 ha will be planted per year.

\(^e\) Based on actual total planted areas in two districts of Tanjung Jabung and Batang Hari up to May 2000 covered 6,575 ha for four years implementation or 1,644 ha per year.

\(^f\) Based on the realization of a total of 23,972 ha by mid-2000 or 5,993 ha per year in four years’ implementation.

\(^g\) Based on the realization up to mid-2000 at 1,525 ha per year or a total of 6,100 ha after four years.

\(^h\) Annual requirement of company processing plant (PT Lontar Papyrus Pulp and Paper Industry, which is a sister company of WKS), at full capacity is 1,935,000 cum of Acacia logs per year to produce 430,000 tonnes of pulp.

\(^i\) The logs were initially planned to supply processing plant with the capacity to process 2,250,000 cum logs per year to produce 500,000 tonnes of pulp. In 2000, the plant had not been set up.

\(^j\) The full capacity of processing plant for pencil slats requires only 60,000 cum of Alstonia logs.
Obstacles confronting the targeted wood production

**Drawbacks in the process of defining the contractual agreement: the company dominated the process in formulating entitlements of both parties in the agreement**

Companies have not commonly used participatory approaches to socialize or deliver information about rights and responsibilities to the wider landowner or tree grower audiences (limited to the head of the farmer group/cooperative and staff). Another problem was due to the fact that a copy of the contract document had not been provided to tree growers in most of the case study locations. This will become a potential source of conflict during the process of calculating benefit sharing of revenues among tree growers.

To some extent, these had resulted in mixed perceptions on the positive values of joining the scheme on the part of landowner partners. In the longer term, commitment from outgrowers, so essential to the sustainability of the contract term, could be weakened from this situation.

**Drawbacks in implementing an effective management plan**

Following a contract agreement, a clear management plan is essential to ensure effective implementation on the ground to ensure that the target planted production could be met for long-term viability. The management plan could include working plans with scheduled activities, technical guidelines, and land-use planning. In the case studies, companies mostly focus on short-term management plans (one rotation), even for companies who initiated long-term contracts due in course with granted timber plantation concession rights.

The management plan in all case studies was verbally communicated to the tree-grower partners in the field during different stages of implementing the plantation establishments. Many tree-grower participants were not aware that the management plan existed or whether they should take part in its development for effective implementation. Finnantara Intiga wrote an integrated and comprehensive book on the guidelines adapted from lessons learned from five years’ implementation, realizing that common vision and interpretation are essential. This explains why the guidelines are now documented systematically. Table 7.4 presents more problems affecting effective management plans.
### Table 7.4. Problems affecting effective implementation of the management plans

<table>
<thead>
<tr>
<th>problems identified</th>
<th>raised by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tree growers were not aware of any applied management plan</td>
<td>Tree growers</td>
</tr>
<tr>
<td>The working plan was delivered verbally in the field and no written guidelines were provided</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Inadequate extension programme</td>
<td>Tree growers</td>
</tr>
<tr>
<td>With less effective company extension programmes on technical aspects; only the head of the farmer group and staff thought the programme was effective</td>
<td>Tree growers</td>
</tr>
<tr>
<td>For timber plantation concessions with two scheme types, less intensive attention on schemes developed outside the concessions compared to the scheme managing claimed areas inside the concession&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Low interest from tree growers owing mainly to focusing on the technical aspect of timber crops, while tree growers also expected to receive other technical information on crops developed as part of outgrower schemes</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Few copies of contractual agreement</td>
<td>Company staff</td>
</tr>
<tr>
<td>A copy of the contract document (SPK) had not been distributed to tree-grower partners</td>
<td>Company staff</td>
</tr>
<tr>
<td>Only the head of dusun (subvillage) or the head of the farmer group possess the contract document</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Delayed schedule on planned activities</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Some maintenance activities were behind schedule of the company's owned-plantation&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Tree growers</td>
</tr>
<tr>
<td>The company incentive had not been 100% fulfilled</td>
<td>Tree growers</td>
</tr>
<tr>
<td>Frequent company staff rotation</td>
<td>Tree growers, company staff</td>
</tr>
<tr>
<td>Mixed perceptions among company staff that developing outgrower schemes would be an alternative to using occupied land inside the concession</td>
<td>Company staff</td>
</tr>
<tr>
<td>Visions, concepts, and principles for establishing plantations based on partnerships had not been clearly communicated from top management to the executives and field staff</td>
<td>Company staff</td>
</tr>
<tr>
<td>Challenges in company human resources</td>
<td>Company staff</td>
</tr>
<tr>
<td>Limited skills or limited numbers of competent human resources.</td>
<td>Company staff</td>
</tr>
<tr>
<td>Tree growers had no interest in provided working opportunities.</td>
<td>Company staff</td>
</tr>
<tr>
<td>Local people concerned about short-term activities in timber plantations (maximum of three years at the beginning of rotation)</td>
<td>Company staff</td>
</tr>
<tr>
<td>Lower wage rate compared to other opportunities (e.g. palm oil plantation)</td>
<td>Tree growers</td>
</tr>
<tr>
<td>External competition</td>
<td>Company staff</td>
</tr>
<tr>
<td>Competition with the expansion of oil palm plantation</td>
<td>Company staff</td>
</tr>
</tbody>
</table>

Notes:
<sup>a</sup> This was mainly driven by the company's main objective when initiating the scheme, which was to develop plantation areas inside concessions after the long-term conflict.
<sup>b</sup> The company of timber plantation concession holder established its own plantation, besides developing plantation under the outgrower schemes.

### Elements for the scheme feasibility

#### Link with processing industry/market is vital

There are two important market links that should be given attention in ensuring the long-term viability of partnerships in outgrower schemes:

- The market for planted timber produced by tree grower partners. Securing this market is an important aspect in securing tree growers’ commitment to the partnership, which will consequently be very relevant to the commercial viability of the scheme.

- The market for company to sell the woods bought from tree growers. This would allow the market for planted timber produced by tree grower partners to also be secured. In case studies, unless the company abandons the scheme owing to bankruptcy or other reasons, the company will secure the market for planted timber as stated in the agreement.

Based on case study observations, company partners are in a better position to secure tree growers’ planted timber, if the company is in the following category:

- The company owns its processing plant (the case of the Xylo Indah Pratama Scheme);
The company has a contract or is in the same group as the other company which readily buys the plantation company’s products:

i. Collaboration between Xylo Indah Pratama and Faber Castle; and


However, there are two different situations that the company has to consider in dealing with tree growers. First, where the local market is available, there are greater pressures for the company to offer competitive prices. Second, the situation where the company will be the only buyer and no tree growers’ experiences on the benefit of harvested wood, such as the case of Acacia woods of Wira Karya Sakti and Finnantara Intiga. There are more challenges for companies in the second situation to provide transparent information and mechanisms to gain trust, especially for the second rotation. Most of tree grower respondents would react by abandoning the partnership for the second rotation if the first rotation were proven to be unprofitable. For the Finnantara Intiga Scheme, the process to gain the tree growers’ trust for long-term commitment would be even harder since there is no certainty as to when the processing plant would be established.

**Fair account of inputs from both parties as the basis for setting up the benefit-sharing agreement, timber buying prices from tree growers, and cost-efficiency in managing small-scale operations**

Since the company partner was the one, which bore all of the expenses in developing timber plantations, the benefit-sharing agreement is based on net timber revenues after the company expenses were paid. Table 7.5 presents the benefit-sharing agreements of four schemes case-studied.

### Table 7.5. Benefit-sharing arrangements as stated in the contractual agreement

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Types of shared benefits</th>
<th>Benefit-sharing agreement (percentage)</th>
<th>Conditions applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Wira Karya Sakti Forestry Plantation Partnership Scheme and the Farm Forestry Partnership Scheme</td>
<td>Dividend based on Joint Venture Company shareholdings (arrangement at the beginning of the contract)</td>
<td>80 20</td>
<td>Initial nominal price per share is Rs 1,000,000 (US$108)</td>
</tr>
<tr>
<td></td>
<td>Proposed arrangement of the Joint Venture Company shareholdings (at 35th year of the contract)</td>
<td>35 65</td>
<td></td>
</tr>
<tr>
<td>Finnantara Intiga</td>
<td>Outgrower scheme area management</td>
<td>95&lt;sup&gt;a&lt;/sup&gt; 5&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Volume of Acacia woods harvested – valued based on minimum royalty per cum&lt;sup&gt;c&lt;/sup&gt;</td>
<td>90 10</td>
<td>Minimum royalty is set at Rs 7,500 (US$ 0.81) per cum</td>
</tr>
<tr>
<td>Xylo Indah Pratama</td>
<td>Net revenues of Alstonia woods harvested</td>
<td>50 50</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
- <sup>a</sup> This includes the native species areas (10%) that are managed by the company. In addition to the Acacia plantations, the tree growers will receive the 10% royalty after logging.
- <sup>b</sup> Rubber plantations managed by the tree growers.
- <sup>c</sup> This includes the native species areas (10%) that are managed by the company.

For a fair benefit-sharing and economic relation, recognizing stakeholders’ economics contribution is important, which would also minimize potential conflicts. From case study analysis, there are inputs that have not been taken into account and used as the basis to decide the benefit-sharing arrangement in the agreement.

Inputs that have not been taken into account fully from the company are:

- costs for constructing road infrastructures;
- occasional social funds that are often not well recorded;
- formal and informal transaction costs;
- valuing the company’s willingness to take risks by initiating outgrower schemes; taking risks could be more affecting medium-scale plantation companies, but lesser for large-scale ones.
From the tree grower side, the benefit-sharing agreement has not clearly stated whether it has incorporated tree growers' land values/rents to consider tree grower contributions fairly. The company generally prefers not to include tree growers' land rents into the equation, since the company policy adheres to the government policy that tree grower lands inside the concessions are covered as state forest areas. Companies like Finnantara Intiga provide land incentives in their schemes, but the contractual agreement specifically mentions that this incentive mainly aims to value the local people's ancestors.

The financial benefits could be ensured by efficiently managing the dominant cost components, associated with each individual scheme arrangement. The highest cost component in each of the four schemes varied to a great extent since different partnership arrangements applied. For example, estimated harvesting costs (excluding the transportation cost) account for the biggest proportion of the Xylo scheme, because these include harvest from thinning at years five and seven. Transportation costs for all cases are estimated to be high because of the scattered locations of tree growers' lands. However, this crucial component was excluded since reliable data was not available. Owing to high variation of transportation costs, companies use stumpage price as the timber-buying price.

A reinvestment mechanism is part of the agreement

Under a long-term contract of 43 years, the Wira Karya Sakti Forestry Plantation Partnership Scheme/Farm Forestry Partnership Scheme is the only one that includes an advanced mechanism to empower tree growers in the long term by providing that tree growers through the Forest Farmer Cooperative will have 65 percent of the shares of the Joint Venture Company by the end of the contract. During the 43-year contract, funds for reinvesting in Acacia plantations are expected to come from a certain proportion of revenues from harvesting Acacia woods that are rotated in eight planting area blocks. Then, from the 8th to the 16th year, there will be continuous revenues. Reinvestment funds are also expected to come from the agribusiness/farming activities on agricultural crops such as chilli, fish and corn. However, it is still too early to claim that this scenario would work well in the implementation stages. Reinvestment mechanisms and tree growers' perceptions are presented in table 7.6.

### Table 7.6. The reinvestment mechanism and the tree growers' perceptions on developing plantations

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Reinvestment mechanism</th>
<th>Tree growers' perceptions for self-financing plantation development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wira Karya Sakti Forestry Plantation Partnership Scheme and Farm Forestry Partnership Scheme</td>
<td>It is intended that at the end of the 35th year of the contract, the tree grower cooperative will hold the biggest proportion of shares (65%), with the main activity of establishing Acacia plantations. In the management plan, planted areas will be divided into eight blocks and will provide income from the 8th to the 16th year continually. The reinvestment funds are also expected to be earned from farming activities to finance Acacia plantations.</td>
<td>Most of tree growers do not have any idea as to the amount of money coming from harvested timber and whether they will be able to use some of the money to self-finance the next rotation planting. Most of tree growers expect that the outgrower scheme's timber function more as household savings. The first harvest should be a real test; if it turns out to be profitable, no doubt tree growers will be interested in establishing their own plantations.</td>
</tr>
<tr>
<td>Finnantara Intiga</td>
<td>Although the company expects that tree growers will independently establish Acacia plantations, the reinvestment mechanism is not clear. The company is currently at the &quot;wait and see&quot; stage before rushing out to plan the long-term scheme, especially since no processing plant has been set up yet.</td>
<td>Low interest from tree growers to develop Acacia plantations if they are no longer involved in the outgrower scheme initiated by the company. This is mainly because tree growers have no experience in seeing the potential economic values of Acacia timber.</td>
</tr>
<tr>
<td>Xylo Indah Pratama</td>
<td>The company outgrower scheme initiative in establishing Alstonia plantations is actually the reinvestment scheme; the company is now buying naturally grown Alstonia trees from the community under a separate contractual arrangement.</td>
<td>Tree growers are willing to plant their own Alstonia, even if the tree growers are no longer bound under the outgrower scheme contract. This is mainly stimulated by the company marketing scheme for naturally grown timber in community private lands.</td>
</tr>
</tbody>
</table>

Securing long-term commitment of tree growers by identifying factors that may influence tree growers to break the contract

As tree growers are the company's main partners in outgrower schemes, securing their commitment is crucial. Therefore, identifying factors that may influence tree growers to break the contract will help the company anticipate different possibilities.
Unprofitable net revenues for tree growers in the first rotation (test on the benefit-sharing agreement) and lack of transparent mechanism during the process of revenue sharing

Obviously, as many tree growers said, they will continue to join the outgrower scheme if there is beneficial income from harvested timber based on transparent processes of the sharing agreement.

Lack of transparent information provided to tree growers, updated wood prices and risks and consequences in joining the scheme

Despite various mechanisms of the companies that are settled in the agreement and their advantageous position in securing the tree growers’ planted timber, it is more important that the company gain trust in securing the tree growers’ commitment, e.g. continuously circulated transparent information of wood prices so tree growers will not feel betrayed in the case of “low wood prices” during harvest time. In all case studies, tree growers generally agreed that wood prices are the most essential information that tree growers would like to be updated on from time to time. In all cases, the mechanism to periodically share wood prices and other related information had not been clearly set by the company partner. Ultimately, this would be important to sustain the scheme by avoiding the tree growers’ sense of being cheated by the company partner by the time of net revenue sharing.

Lack of effective conflict resolution/renegotiation mechanisms

Conflicts occur in any partnership relation including in outgrower schemes. Recognizing various sources of potential conflict will be advantageous for the company by providing indications of what sort of conflict mechanism would adequately suppress and handle conflicts before they become too extensive and difficult to manage. The main challenge is to establish a conflict resolution mechanism that will be accepted and respected by key partners in the schemes. However, field observations have revealed that developing a suitable conflict resolution mechanism when designing schemes has not always been conducted by companies studied owing to lack of knowledge in developing such mechanism.

The mechanism may play an important role in solving potential conflicts when harvesting time comes, such as disagreement on the wood prices as the basis for sharing revenue from harvested timber. Overall, the conflict resolution mechanism that companies included in the contract agreement was a general statement that if there is disagreement between the two parties, it will be resolved through amicable discussion or “musyawarah”, and if the suggested solution is not be accepted by both parties, the case will be referred to the courts. This general statement is interpreted in various ways on the ground.

Specific channels used by tree growers to address conflicts or issues of concern were mainly through:

- **The head of the group and his/her assistant**, particularly if the tree growers’ group/farmers’ group/cooperative are functioning effectively. The problem addressed was the delayed schedule on planting and other plantation-related procedures.
- **The head of the village or subvillage**, particularly if the formal institution is legal and respected.
- **Customary leaders or other informal leaders**, particularly if the customary institution role is quite solid in the area. The problem addressed was the boundaries between landowners inside outgrower scheme areas.
- **The head of the tree growers’ group or other appointed representatives, or possibly, individual tree growers**. Individual tree growers use this channel more where company field staff are approachable and available. The problem addressed was the delayed schedule on planting and plantation-related procedures.
- **Other mechanisms: developing individual contract agreement**. Xylo Indah Pratama has now processed a transfer from group to individual contracts in conjunction with a timber stand survey of individual landowners’ rights to prevent potential conflicts that may arise during harvesting.

In addition to the conflict resolution mechanism, mutually beneficial partnerships would exist if the agreed arrangement included a mechanism to allow key partners, both company and tree growers, to renegotiate points of the agreement. Although in one agreement it was stated that both parties should hold one copy of the agreement and have the same legal rights, during implementation the companies case-studied applied procedures and conditions differently for tree growers to renegotiate points. The points raised were:

- A legal process is required: changes in any points of the agreement should be done through legal process (witnessed by a notary).
- Agreements from the members of the farmers’ group or the cooperative are required.
- The demands must be reasonable from both parties’ perspectives.
For effective renegotiation, stakeholders, mainly tree growers who usually are underrepresented and/or in the least beneficial position, should be able to articulate their views individually or as a group. From the company’s perspective, this will also be beneficial as the company will be able to discuss the negotiated points efficiently and will not bear negative consequences, since tree grower representatives can be responsible for their decisions taken.

**Taking into account social elements to ensure commercial objectives achieved**

For long-term feasibility, companies should examine local sociocultural conditions. However, companies should carefully consider not replicating the “charity driven” programme implemented in the past that resulted in a greater dependency of tree grower on the company.

**Respected traditional/heritage values of lands**

The issue of land status/property rights, particularly inside the forest areas had not been clearly addressed in various schemes.

**Enabling the continuation of the current livelihood strategy**

Field observations have shown that replacing the community’s long-term practice with new options is not preferable and may waste the funds in unsuccessful programmes. For example, tree growers in the Finnantara Intiga scheme do not feel positive towards planting high-yielding rubber trees to replace the traditional practice of tapping rubber trees in the forest that do not require intensive maintenance. As a result of limited time and a low level of interest, tree growers did not plant many rubber seedlings. In the WKS (Wira Karya Sakti) latest scheme, some programmes, such as planting Pinang trees, were initiated in response to tree growers’ requests. However, the accommodated requests came mainly from the Head of the Forest Farmer Cooperative and other management personnel, while ordinary members’ opinions and preferences were often excluded. This situation could mean that the programme will not be widely supported by the tree grower members of the group, and may create a social gap.

**Indirect benefits gained by tree growers secure their commitments**

Most tree growers appreciated that there were intangible benefits gained by joining the schemes. Intangible social benefits to the tree growers mainly included having improved knowledge on the intensive cultivation of timber crops, since such a system was not in keeping with the tradition of these people who were used to log timber from natural forests. This situation implied that the socialization approaches were required to be even more effective in introducing partnership schemes for timber crops. Indirect benefits could influence the tree grower felling being more attached to the partnership programme in order to secure tree growers’ commitment in the long term. Other benefits included:

- clearer boundaries between community land
- a mechanism for resolution of conflicts over land use, specifically for areas inside the concession
- intensive and positive interaction between company and tree growers and also among tree growers in implementing “gotong-royong”, i.e. traditional initiatives of an informal group of people working together on various activities in order to help each other;
- stimulated group activities since group discussions and negotiations are required in the outgrower scheme;
- productive use of idle lands.

**Ensuring the rights entitled in the contractual agreement can be transferred to their heirs**

According to the communities’ sociocultural needs, the most important condition is the recognition of the wish to transfer tree growers’ rights to their heirs (intergenerational principle). This need is due to the nature of timber trees, which need a long time from planting to harvest, and the fact that the contract in outgrower schemes covers from 11 to 45 years. Accordingly, the intergenerational principle is important as it relates to the tree growers’ involvement in the partnership and must be carefully considered so that landowners’ rights and their families will be maintained by the contract agreement over several generations. The Xylo Indah Pratama scheme was the only one that included this issue in the agreement, allowing growers to transfer the contract to their heirs.
Ensuring that the agreement can be transferred to the landowners’ family is also important to prevent any conflict that may occur during harvest if, for example, the initial holder passes away (the tree grower/land holder who signed the contract with the company). Rights would be more secure if the agreement contained specific clausal on who would be the ‘seconded-person’ or heir to receive the revenues from harvested timber.

Providing income opportunities during the grace period. Does the absence of alternative income during the grace period influence tree grower partners to break the contract?

The importance of developing income options to fill the grace period between planting and harvesting would be relevant if the objective in developing this programme is to minimize the possibilities of tree growers to withdraw from the scheme, particularly in the situation where local income options are limited.

Some aspects that should be considered in initiating effective income diversity options in order to bridge the period between planting and harvesting, are as follows:

- Idle lands (either marginal/good quality lands) with high opportunity costs (competitive land uses) and limited other income opportunities. Initiating various income diversity options to bridge the gap between planting and harvesting period is essential if the land opportunity cost is high and limited existing options to generate incomes for tree grower households. However, while the marginal idle lands are handed over in outgrower schemes, tree growers who are busy managing their own productive lands would not have the time and/or human resources to implement additional opportunities provided to them by the company partner.

- Defining income diversity options that suit the needs of tree grower partners: a preliminary socio-economic survey will provide information on more cost-effective investment on income diversity options. Proper needs assessment among tree grower households should be conducted prior to any company initiatives on community development programmes in providing income diversity options. It is also important to take into account other members of tree grower groups, not just the head of the group, and few administrators of the cooperatives.

Mutually beneficial partnerships in outgrower schemes are a continual process

Based on case study analysis in this report, outgrower schemes provide opportunity for the company to ensure sustainable wood supply while sharing the benefits (and risks) with local communities. However, to become effective in the long term, finding ways for mutually beneficial arrangements for both parties is essential to secure company investment, and to maintain long-term tree growers’ commitments.

An outgrower scheme should be initiated and implemented in a way that it is commercially viable to both company and tree grower partners, which depends on several conditions as the elements of success:

- Link with processing industry/timber market is important to secure the market for timber produced by tree grower partners.
- Fair accounts of inputs from both parties to define the benefit-sharing agreement and timber buying prices from tree growers.
- Cost efficiency should be an essential part of small-scale timber plantation management, particularly in managing crucial cost components (transportation and transaction costs: community organizing, social funds, and seeking local government support).
- A reinvestment mechanism is part of the agreement.
- Securing tree growers’ long-term commitment:

  Fair and profitable revenues from the first harvest are important for tree growers to continue joining the partnership.
Providing income opportunities during the grace period on the condition that there be high land opportunity costs and limited income opportunities.

For cost-effective investments on different programmes, local sociocultural conditions and needs should be accommodated based on a proper community needs assessment.

Taking into account elements for a mutually beneficial arrangement, the agreement and management plan should include:

- Locally driven participatory approaches in conducting a socialization programme, composing agreement, and designing management plan.
- Transparent process in clarifying the long-term status and rights over partnership areas.
- Company-facilitated clearer understanding of agreement and management plan to the other parties, as well as disseminated technical and financial information. Transparent information should be periodically provided to (and discussed with) all concerned stakeholders, including risks and consequences.
- In the case of defined multiple objectives, a defined list of priorities of the objectives and a management plan in line with this list. In the beginning, a simple arrangement is better.
- Conflict resolution and renegotiation mechanisms that are defined together with concerned stakeholders.

Maintaining outgrower schemes under a long-term contract

Maintaining outgrower schemes under a long-term contract is more difficult than the initiation process. The arrangement should be flexible enough to adapt to the changing socio-economic conditions within the framework of initial mutual objectives. Taking into account the elements of the dynamic processes in maintaining outgrower schemes will be one way to ensure the mutually beneficial partnership of the scheme in the long term, as discussed in the diagram below.

**Figure 7.2 THE DYNAMIC PROCESS OF MAINTAINING OUTGROWER SCHEMES**
The implication and challenge of outgrower scheme for plantation management, strategies and policy in Indonesia

Since 1985, the Indonesian Government targeted 6.2 million hectares of plantation development, and after 15 years the realization reached only about two million hectares (Handadhari, 2001:28). Slow growth of plantation areas has not stopped the rapid expansion of large capital investments in forest-based processing industries, since these industries have relied upon the exploitation of natural forests. As Barr (2001) highlighted, plantations supplied only 8 percent of 100 cum of the wood requirements for the pulpwood industry between 1988 and 1999, and deforested about 835,000 ha of forest resources. Reliance on supply from natural forests has proved to be unsustainable, both financially and ecologically. Furthermore, industrial-based forest policy has led to local disenchantment, resentment and conflict. Successful development of the forestry sector in Indonesia requires new thinking in terms of where industry will get its timber supply and how it will go about getting it.

Clearly, plantations will be the most sustainable resource-base for timber in Indonesia and their success requires support from local communities. As recently discussed during a one- day discussion on Timber Estate in Indonesia conducted by Forestry Research and Development Agency – FORDA (2001), conflict over forest land resources first on the list of main obstacles in timber plantation development. An earlier study by CIFOR Plantation Programme, which examined criteria and indicators for plantation management, concluded along the same lines that long-term sustainability of plantation forestry is related more to social problems rather than management or environmental issues (Muhtaman, Siregar and Hopmans, 2000). Outgrower partnership schemes might provide effective approaches for ensuring a sustainable supply of timber while sharing the benefits (and risks) with previously disenfranchised – and thus angry or at least cynical – local communities. Further, maximizing social benefits from plantation development is crucial; this is especially true where forestry plantations have been developed by converting the natural forests on which significant numbers of people depend for their livelihoods.

However, if company-community partnerships in outgrower schemes is the way forwards for timber plantations in Indonesia, major challenges will be developing a conducive policy and institutional framework that are coherence with other policies on timber plantation development, and developing effective instruments for intersectoral coordination on forest land management.

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Chapter 8

COMPANY-COMMUNITY FORESTRY PARTNERSHIPS: FROM RAW DEALS TO MUTUAL GAINS?

James Mayers and Sonja Vermeulen

All sorts of deals have been struck between forestry companies and local communities over the years. Companies have sought to make deals to secure access to land and labour, and continuous supplies of wood – as well as to demonstrate their good neighbourly intentions. Communities have sought employment, technology, infrastructure, social services and sources of income – and secure access to a wide range of forest products.

The International Institute for Environment and Development (IIED), together with a range of collaborative research partners, has examined 57 examples of company-community forestry partnership in 23 countries. The aim of this work is to identify lessons on the driving forces for partnerships, the nature of the deals involved, their impacts, and the ways in which they might be improved and spread. The examples cover a wide range of arrangements: from farmer outgrower schemes to supplement company-grown fibre, to community intercropping between company trees, to local agreements around local timber and tourism concessions, to joint ventures where communities put in land and labour, to plantation protection services, to access and compensation agreements (see Figure 1).

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11 South Africa, India, Indonesia, Papua New Guinea, Ghana, Canada, Brazil, China, Guatemala, Nicaragua, Honduras, Mexico, Colombia, Zimbabwe, Philippines, Thailand, Solomon Islands, Vanuatu, Australia, New Zealand, Portugal, Ireland and USA.
A growing role for partnerships in forest governance?

Partnerships are of considerable interest in the search for effective governance mechanisms in an age of opportunities and threats created by globalization. Globalization of markets, capital flows and technology holds great potential gains for communities with access to forest resources. To realize this potential, communities need to be able to exploit their comparative advantages and seize new livelihood opportunities while simultaneously withstanding the pressures of increased competition and inadequate social and environmental investment that global markets foster. The forestry industry is also dancing to the new tunes of globalization, with greater privatization of forest resources and services, rapid increases in demand for fibre, a shift from natural forest to plantations as the main source of raw materials, ever more corporate mergers, and growing pressure for environmental and social responsibility.
In this context, a range of factors may determine whether companies and communities strike up deals or actively avoid them. For companies, external policy or market duress to practice fair trade or sustainable forest management may be important, as may economic considerations, such as the potential to cut costs, share risks or gain access to resources through engagement with local groups. Companies can provide skills, technologies, resources and access to markets that the community would otherwise be unable to obtain. Communities may aim for partnerships when they can make more money from fibre growing, harvesting or processing than alternatives would provide, but lack the means to exploit these advantages without services that the company can provide.

The skills and resources a community can bring to the negotiation table might range from the ability to organize local initiatives (e.g. growing and managing trees) to refraining from engaging in activities that undermine the interests of companies (e.g. not burning down plantations or sabotaging operations). The important point is that these interests, skills and resources often go unrecognized in conventional market relations, particularly where globally connected companies are concerned. Power, of course, may not be well balanced between company and community, so that what passes for a win-win partnership may in fact be a reluctant concession to outside demands. Factors working against company-community deals include ineffective policy frameworks, poorly functioning markets, histories of conflict and weak institutional mechanisms within the company, community or government.

This report examines the factors that encourage or prevent partnerships and tackles the practical issue of how company-community relationships can shift from raw deals to mutual gains.

Country case studies

Detailed case studies of company-community deals were undertaken in six countries that cover a range of forestry and governance contexts (Table 8.1). The South Africa case study provides the most detailed information, in particular on the impacts of outgrower schemes on the livelihoods of both participating growers and local non-participants. The India case study involves more short-lived outgrower arrangements and highlights how and why company-community deals grow, change or dissolve over time. Papua New Guinea presents a contrasting situation, where logging in natural forests is the focus of company-community relations that have much potential, but to date have been highly strained. The studies in Ghana, Indonesia and Canada offer potentially widely applicable lessons respectively on social responsibility agreements, capacity for change in long-term company-community relationships and the implications of communities themselves becoming companies.

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12 The following working definitions are used in this report:

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

- **Communities** include farmers and individual local “actors” as well as community-level units of social organization such as farmers' groups, product user groups and cooperatives. When community groups organize for profit, there is an overlap between “company” and “community”.

- **Forestry** is the art of planting, tending and managing forests and trees for goods and services. It may take place in dense forest, open woodlands, agroforestry, smallholder woodlots and commercial scale plantations.

- **Partnerships** are 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 range of contracts and informal arrangements between companies and communities. Partnerships are a means to share risk between the two parties, and third parties often play important supportive roles.
Table 8.1. Characteristics of country case studies of company-community partnerships

<table>
<thead>
<tr>
<th>Country</th>
<th>Land tenure context</th>
<th>Types of schemes reviewed</th>
<th>Notable features</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Some community land; some large private plantations; many smallholdings – land redistribution is taking trend away from large-scale towards smaller-scale</td>
<td>Outgrower schemes – non-timber forest products and pulp</td>
<td>Big companies run schemes providing significant local livelihood benefits; scheme-management in part contracted out to NGOs; cooperatives and unions also established as alternatives to big company partners; and communities forming trusts to enter into joint ventures</td>
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<td></td>
<td></td>
<td>Corporate social responsibility projects</td>
<td></td>
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<td></td>
<td></td>
<td>Joint ventures – pulp</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Many smallholdings and some commons; by law companies do not have any access to large tracts of land for plantations so they must source raw materials from small-scale growers</td>
<td>Farm forestry support – commodity wood and pulp</td>
<td>Rapid evolution of partnership schemes from free seed supplies, through bank loan contracts to looser buyer arrangements with companies concentrating on developing high-quality tree clones</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Farm forestry crop-share – pulp</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>About 75% of land is classified as state forest and under government control though most is contested; otherwise smallholdings</td>
<td>Outgrower scheme – commodity wood</td>
<td>Schemes dependent on high levels of government support which is not always forthcoming; some progress now towards revenue sharing in the long-established tenant farmer (taungya) schemes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Comanagement for non-timber forest products and service contracting</td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>97% of land is held under customary ownership – companies must negotiate with communities to operate logging concessions or plantations</td>
<td>Concessions leased from communities</td>
<td>Communities are able to register as companies but there are problems with accountability; novel legal mechanisms exist to foster forestry development on customary land</td>
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<tr>
<td></td>
<td></td>
<td>Potential joint ventures</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Contracts from communities – commodity wood and outgrower scheme</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>Most land is under customary tenure - companies must reach government-sanctioned arrangements with local owners</td>
<td>Corporate social responsibility policy</td>
<td>Workable system for participatory planning of company (and community) social responsibility built into tender process for logging permits</td>
</tr>
<tr>
<td>Canada</td>
<td>80% of forest reserves are under customary tenure with varying splits of rights between customary groups and central government – companies often have to negotiate with both</td>
<td>Joint ventures, cooperative business arrangements and forest services contracting</td>
<td>Communities are able to register as companies; wide-ranging deals have allowed business diversification for both partners</td>
</tr>
</tbody>
</table>

South Africa: outgrower schemes with livelihood benefits

In South Africa, outgrower schemes involve some 12,000 smallholder tree growers on about 27,000 ha of land. The two schemes with the largest membership are operated by the country’s biggest forestry companies, Sappi and Mondi. Smallholders grow trees with seedlings, credit, fertilizer and extension advice from companies who later buy the product for pulp. While outgrower timber only provides about 10 percent of the two companies’ mill throughput, and is more expensive per ton than wood from other sources, it provides the fibre that would otherwise be unavailable because of land tenure constraints. This allows a volume of production to be reached that achieves economies of scale. Crucially, the schemes also provide companies with a progressive image at a time when the distribution of land rights in South Africa is being called into question. Two other outgrower schemes provide alternatives to the company schemes, one operated by a growers’ union and the other by a cooperative. Apart from better representation, their respective advantages for members are shares in the downstream tannin factory and seeking the best prices for fibre.
For communities, outgrower schemes have contributed substantially to household income, providing participating households with about 20 percent of the income needed to be just over the national “abject poverty line”, but they are yet to take households out of poverty. Small growers also face problems with opaque government policy and uncoordinated service provision from agencies of national and local government. Their associations lack the power to engage with the policies and institutions that affect their livelihoods. Nonetheless, outgrower schemes have had several positive impacts on communities’ asset bases. Land rights have been secured and infrastructure has been developed in some areas. The schemes have been available to even the very poorest and most labour deficient of smallholders, because of the credit extended by companies, while non-landowners have benefited in some areas through employment as weeding, tending, harvesting or transport contractors to the landed smallholders.

India: farm forestry kick-started by industry-farmer relationships

In India, where national companies are the main buyers and processors of wood fibre, large-scale plantations are not a feature of the landscape. Government policy rules out any direct private sector roles on state forest land, and limits the area of land that can be held by any private owner. Under these circumstances, companies are obliged to purchase fibre from smallholders – and since the early 1980s several of the larger forestry companies have experimented with outgrower schemes and other arrangements. In general, the different schemes have trodden a rather similar course. Most schemes started by distributing free seedlings, but survival rates, in line with smallholders’ interest, remained low. Next companies tried to increase inputs, via bank loans, technical extension and buy-back guarantees. This was also largely unsuccessful, because smallholders either defaulted on their loans or found higher prices for their product on the open market.

Overall, although formal schemes have mostly been abandoned, the experience with outgrowing arrangements in India has been positive. Companies have moved on to concentrate on the lucrative business of developing and supplying high quality clone seedlings through local nurseries. They buy fibre on the open market at prevailing prices – smallholders receive the benefit of competition among fibre-buying companies. Farm forestry is now a viable land use for smallholders in many parts of the country, but does not displace agriculture for larger-scale farmers, who choose to spread their risk between agricultural and timber crops, nor for most of the small-scale farmers, who are unable to forego food security and therefore plant trees mainly along field boundaries. The Indian experience shows that close, long-term partnerships are not always the best model of interaction for either companies or communities.

Indonesia: third party roles and venture partnerships

While the rural population densities of the Indonesian islands of Sumatra and Java are comparable to India, land tenure is somewhat different. About 75 percent of the total land area is classified as state forest land, falling under the jurisdiction of the Department of Forestry, which allocates logging and/or plantation rights to private companies. The government also has a central policy of promoting partnerships between companies and local smallholders or communities, with support from a Reforestation Fund that accrues from levies on logging.

One company that has greatly benefited from the Reforestation Fund has been PT Xylo Indah Pratama, a Sumatra-based company allied to Faber Castell. Unable to obtain sufficient raw materials for its pencil factory from its forest concession, the company used research and development to identify a local weedy species as a viable alternative. An outgrowing scheme based on 50-50 profit sharing was established with smallholders who had unused land (mainly owing to labour constraints). The scheme has not yet reached its first harvest, but both smallholders and company staff have already discovered just how much investment of time and effort is needed to maintain a workable relationship. Meanwhile, all of the financial risk is borne by the government through US$1 million in credit from the Reforestation Fund – the company will not be asked to meet repayments if its profits are insufficient, thus rendering the scheme vulnerable to changes in government policy.

All production forest in Java is under the control of PT Perhutani, a state-owned company that is in the process of being privatized. Perhutani allocates small plots within its teak plantations to local farmers for agroforestry, perpetuating the tumpang sari (taungya) system that has been in place for nearly 150 years. Farmers’ opportunities to negotiate and influence decision-making within this scheme are limited, but recently innovations have appeared, albeit only on a localized scale. Local cooperatives have formed “venture partnerships” with Perhutani with contracts to manage tourism operations and other services around logging areas and these groups are showing the first signs of negotiating better deals with the company.
Papua New Guinea: notorious logging “rip-offs” and better timber lease deals

Communities in Papua New Guinea have especially strong customary land rights, guaranteed by the country’s constitution. The customary landowners, or clans, own 97 percent of the country’s land area and are thus in a strong bargaining position. In contrast to most of the other examples of company-community deals presented here, communities in Papua New Guinea have the further advantage of being able to register as companies themselves. These landowner companies have had some success in negotiating deals with foreign logging companies, but are also the target of much criticism for being unrepresentative, irresponsible and not accountable to anyone: often it is only the landowner company’s directors who benefit from logging, while the entire clan bears the costs. New government policy in the 1990s, aimed at fostering greater local democracy, has been difficult to implement owing to insufficient resources and the difficulty of achieving consensus among groups sometimes comprising many clans.

As the efforts by government and non-governmental organizations to support more representative and accountable forestry partnerships continue, so new opportunities for development are arising. One promising scheme for plantation forestry – as yet undeveloped in Papua New Guinea – is the “lease, lease-back” system that has been developed in the oil palm industry as a legal mechanism to allow foreign companies more secure long-term access to land. Inherent dangers, such clearance of natural forest to make way for plantations, will have to be avoided, but for customary landowners, “lease, lease-back” may be a route to lasting regular rental payments with low inputs on their part, while for foreign investors Papua New Guinea may become a more attractive option.

Ghana: social responsibility agreements

One outcome of the overhaul of forest policy in Ghana in the 1990s was a new regulation stipulating that companies tendering for timber cutting permits would be assessed in terms of their respect for the social and environmental values of local residents. Under the new law, which came into operation in 1998, logging companies are required to secure a “Social Responsibility Agreement” with the customary owners of the land. This agreement follows a standard pattern, to include a code of conduct for company’s operations – guiding environmental, employment and cultural practices – and a statement of social obligations, which is a pledge of specific contributions to local development.

Ghana’s Social Responsibility Agreements differ from many systems of corporate responsibility internationally in that each agreement must be fully negotiated with the local community. There is a strict procedure for developing an Agreement with local representatives and the district forest office before submission to a central evaluation committee. While these agreements are still in their infancy, the policy itself already provides useful lessons for other countries, where high-value timber is logged in community areas, in how to implement a fairly simple, cost-effective, accountable system to support sustainable and socially responsible logging.

Canada: First Nation forest contracts and joint ventures

As in Ghana, much of Canada’s forest is on land under customary tenure. The First Nations (Native American clans) who hold rights over the land have in recent years received considerable support from government – in the form of enabling policy and soft loans – to develop forest-based enterprises. One of the key strategies in the government policy is to promote partnerships between First Nations and established forestry companies. First Nation community groups see these partnerships foremost as a means to expand and improve local employment opportunities, while the companies are attracted to the cost reductions possible when working with well-located partners who have the advantages of governmental financial and logistical support.
The deals made between forestry companies and First Nation communities in Canada are similar to those in Papua New Guinea in that the communities themselves register as companies, with the full suite of rights and restrictions that this status confers. The First Nation companies, which may represent entire clans or sub-groups, are able to negotiate a wide range of arrangements with external companies, from joint ventures through contracting arrangements to informal cooperation to achieve specific tasks. Deals cover much more than silvicultural and harvesting activities, extending to service industries, non-timber forest products, downstream processing and business management. Some of these partnerships have faltered owing to the inexperience or weak tenure rights of the First Nation partners, but others have enabled business diversification and increasing market shares for both partners.

Overall trends and ways forwards

Impacts of company-community deals

There is no “perfect” deal – no example yet found of an equitable, efficient and sustainable system that has been returning benefits to company, community and forest on a long-term basis. But it is clear that perfection is not needed to deliver significant returns. Where they work reasonably well, forestry partnerships can bring both the concrete economic pay-offs that tend to be uppermost among the motives of both partners and broader benefits to local livelihoods and the public good.

Some of the main positive impacts of company-community forestry deals are:

- Clear economic benefits, giving better returns to capital, labour or land than alternatives, for both company and community.
- Enterprise diversification, such as expanding the resource base of raw materials for companies, or encouraging mixed cropping for households.
- Opening the door to new opportunities, including development of skills for communities and new business pathways for companies.
- Achievement of corporate goals, from profitability and market standing through to staff development and public responsibility.
- Contribution to security of land rights for communities or individuals, through contracts or less formalized external or intracommunity recognition.
- Development of infrastructure for communities, especially via corporate responsibility agreements.
- Sharing of risk (e.g. allocation of production risk to growers and market risk to companies in a typical outgrower scheme), which turns a no-go business prospect into an attractive option.
- Better job opportunities, often benefiting community members who are not otherwise involved in the deals.
- Positive environmental effects, most broadly promotion of sustainable multipurpose forest management, but also microscale improvements in erosion and climate where trees are intercropped or planted on boundaries.

On the other hand, some expectations of company-community partnerships show less sign of being fulfilled. In some cases this is because there is just not enough evidence yet, but on other levels deals simply fail to deliver. Some areas where partnerships so far have produced unproven or neutral impacts include:

- Poverty reduction – for most communities, partnership activities are supplementary rather than central to livelihoods. In South Africa, for instance, it is clear that company-community schemes are not enough, on their own, to lift households out of poverty.
- Conditions of employment – deals can provide some guaranteed employment, but have not as yet delivered better working conditions to forestry employees.
- Development of collective bargaining power – while some partnerships have resulted in greater cohesion and organization among community groups, there is as yet little evidence of substantial increases in their bargaining power.
Company-community deals are also accompanied by negative effects on both partners, especially in the early stages of development when most mistakes and learning occur. The kinds of problems encountered are:

- High transaction costs on both sides, meaning, for example, that for companies outgrown pulp is often more expensive than from other sources and for communities that better terms are difficult to negotiate.
- Misunderstandings between partners, leading to financial losses or litigation.
- Perpetuation of low-wage labour and inequitable land distribution in deals which entrench existing patterns of ownership and control.
- Negative environmental effects where natural forests are cleared for plantations, where plantations are badly managed or promote the spread of alien species, or where large-scale logging in old-growth forests is made possible.
- Exclusion of disadvantaged community members from some schemes which require possession of land and some initial capital resources.

Making the first move

Individual deals may be started off in response to specific problems, such as conflict between the two parties, or specific opportunities, such as technical innovations. Most times, deals are kicked off through the efforts of particular individuals, groups or institutions — typically third parties — who champion the concept and provide guidance and support. But before any of this can happen, certain prerequisites must be in place. The most important of these are perhaps secure land tenure and enabling government policy. No single model of property rights is the correct one for forestry partnerships — they can work just as well for example on communally or individually held land — and the interplay between company-community deals and land tenure has many variations. Changes in land policy have been the impetus for partnerships in China and South Africa, while in Canada and Indonesia partnerships provide an arena for ongoing struggles for land rights.

Enabling government policy can be specific, for instance the requirement for social responsibility agreements in Ghana, but a broader base of “carrots and sticks” in forestry and non-forestry policy and institutional frameworks is also required.

Experience shows that factors associated with successful start-ups to company-community deals include:

- Kick-start funding — governments can provide start-up funds or fiscal incentives, while financial institutions may be able to offer favourable loan terms or insurance packages.
- Assessing and dealing with community realities — neither community nor company partners should be blind to the heterogeneity of “community” since deals which exclude particular social groups, or involve only elite groups, are more likely to run into difficulty.
- Organization within communities — even if contracts are with individuals, it may be worth while both for the community and company partners to invest in effective and representative community institutions to oversee the workings of the partnership.

Other than outgrower schemes in the pulp sector, company-community partnerships in forestry remain the exception rather than the norm. Often their failure to materialize will be the result of specific local circumstances, but there are also wider factors holding back their development. Community tenure remains weak (or in unusual cases such as Papua New Guinea, strong but difficult to collateralize) and international market pressures encourage short-term, profit-making activities over long-term alliances and economies of scale over multiple small deals. There is an abiding problem of reluctance to make deals in uncertain policy environments, with unpredictable partners and unclear market outlooks. Sometimes companies, communities and third parties, including banks and unions, are just not making the right links.
Sealing the deal: terms of engagement

More equitable deals, in which terms are negotiated rather than set unilaterally, do seem to work better. Working with a more equal partner makes sense as a means of mitigating risk – defection, recrimination and litigation are far less likely if terms are fair and open to debate. Some of the best potential for sound business partnerships comes where communities are able to register as companies themselves, securing for both partners the mutual rights and controls that come with corporate law. Even where this is not possible, it is in the interests of both company and community to invest in getting conditions of engagement right from the start. Deals are seldom ideal, especially in their early days, but an equitable and workable governance structure should allow for future development and response to unexpected trends and events.

Key principles to weave into the specific terms of a deal from the start are:

- A formal and realistic contract – legally valid but not overcomplicated
- Security of contributions, be they land, finance or labour, from both sides
- Shared understanding of prospects and opportunities, as well as costs and risks
- Mechanisms for sharing decision-making and information
- A joint work plan – clear demarcation of each side’s rights, responsibilities and expected rewards within an overall management framework
- Flexibility and space for negotiation, including specific terms for review and revision
- Sustainable forest management practices, in economic, social and environmental terms
- Extension and technical support, as a regular rather than one-off service
- Procedures for conflict resolution – arbitration, defection, termination and recourse
- Systems of accountability, to the community (especially regarding benefit sharing) and local government, and more widely to civil society
- Clear roles for third parties, such as government, community development organizations and financing agents – drawing on their services and comparative advantage
- Integration with broader development plans for the company, community, district and country

Deals maturing into partnerships

One encouraging trend is the achievement, in some company-community deals, of real improvements in their designs and outcomes over time. Some of the success factors that enable companies and communities to achieve better terms and returns are highlighted in Table 8.2. A particularly positive trend for both sides is that the position of the community within the partnership tends to strengthen over time, as they gain greater experience in business management, law, marketing and negotiation.
Table 8.2. Improvement of partnerships over time – success factors and examples

<table>
<thead>
<tr>
<th>Success factor</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staying abreast of the market – business innovation, paying market prices</td>
<td>Several companies have moved into paying market prices for fibre in countries as far afield as India, Australia, Vanuatu, Guatemala, Portugal and Zimbabwe</td>
</tr>
<tr>
<td>Keeping ahead of legislation</td>
<td>Companies going beyond basic social responsibility agreements have a business head-start, e.g. in Ghana and Honduras</td>
</tr>
<tr>
<td>Allowing sufficient time and resources to develop good working relations</td>
<td>Long-term investment of staff time has paid off for companies in South Africa and Canada</td>
</tr>
<tr>
<td>Being alert to broader economic, political and environmental change</td>
<td>Companies are setting up outgrowing schemes in Pacific nations in anticipation of plantations eclipsing natural forests</td>
</tr>
</tbody>
</table>

Communities

<table>
<thead>
<tr>
<th>Success factor</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive planning to preempt the company in design and organization of key aspects of partnerships</td>
<td>A village-level cooperative in Indonesia has negotiated a tourism contract on its own terms</td>
</tr>
<tr>
<td>Business expertise and legal advice</td>
<td>South African outgrowers have benefited from legal advice to improve the terms of their contracts</td>
</tr>
<tr>
<td>Formation of a registered company</td>
<td>Legal incorporation has paid off for communities in Canada and Papua New Guinea</td>
</tr>
<tr>
<td>Action in second best environments, in spite of risks</td>
<td>Sometimes partnerships serve to secure shaky land rights, e.g. in Nicaragua and Canada</td>
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</tbody>
</table>

Sometimes company-community deals come to an end. Often this is due to changes in prevailing market conditions, whereby competing sources of raw materials or alternative livelihood opportunities become more attractive to either partner. Perhaps the most famous example is the PICOP outgrower scheme in the Philippines, which collapsed after 30 years as other sources of pulp became much cheaper than that from the scheme. Some partnerships end in a shambles of heavy losses and recrimination, even violence, for example the Boise Cascade joint venture in Mexico. However, longevity is not really an indicator of success in partnerships, and some deals have cut-off points built in from the start, for good reason. Deals between companies and communities can be a stepping stone to improved business and livelihood opportunities for both sides, as has happened in farm forestry in India or in the proliferation of First Nation businesses in Canada.

Recurring challenges and bright ideas

Company-community partnerships in forestry commonly face a number of enduring challenges, which may sink a deal, or be solved by deft innovations (Table 8.3). Perhaps foremost among the challenges are the high transaction costs associated, on the company’s part, with interacting with a large number of scattered individuals or groups or, on the community’s part, with running effective systems for group decision-making and for engaging successfully with the company partner. In both cases, some kind of “loose-tight” model of management may be the most practical solution, giving space for local or individual flexibility within an overarching set of partnership principles. Managing risk is also a major concern in the inherently long time spans that fibre production requires. Partnerships spread risk, but also generate new risks – companies and communities need to maximize their options and seek support from outsiders, especially insurance and backstopping.
Table 8.3. Five major challenges to company-community partnerships, with examples and some general ways forwards

<table>
<thead>
<tr>
<th>Partnership stumbles</th>
<th>Partnership innovates</th>
<th>Some general ways forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity and transaction costs</td>
<td>Company field staff with budget control, but working within core principles</td>
<td>Small alliances to deal with immediate transaction costs</td>
</tr>
<tr>
<td>Partnerships fail in Canada owing to needs for high inputs of company staff and community time</td>
<td>In South Africa, local grower and contractor groups achieve economies of scale while broader federations work for smallholders’ interests</td>
<td>Communities piggy-back on existing systems of collective organization</td>
</tr>
<tr>
<td>Difficulties of organization among clans in Papua New Guinea hold back development of deals</td>
<td>Joint ventures in China involve government forest bureaus as brokers</td>
<td>Use of local brokering agents</td>
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<tr>
<td>Uncertainty and risks</td>
<td>Schemes are introduced in phases with a learning cycle philosophy</td>
<td></td>
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<tr>
<td>Outgrowers in India, Thailand, Indonesia and South Africa drop out of deals when yields and prices do not meet expectations</td>
<td>Land leasing for forestry in Georgia, USA, incorporates risk prediction and management measures</td>
<td>Both sides avoid becoming too dependent on a single commodity or single land use</td>
</tr>
<tr>
<td>Asia Pulp and Paper forced to hold back huge outgrower scheme in China owing to sudden change in government policy</td>
<td>Contracts between Smurfit and smallholders in Colombia protect each party’s investment</td>
<td>Early revenues from trimming trees, partial harvesting or intercropping</td>
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<td></td>
<td></td>
<td>Government provides stable incentives and buffers such as soft loans and tax breaks</td>
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<td></td>
<td></td>
<td>Insurance companies expand their services to small-scale fibre producers or producer associations</td>
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<tr>
<td>Single versus mixed production systems</td>
<td>Both sides consider forestry activities other than tree growing</td>
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<tr>
<td>Some South African outgrower schemes insist on monocultures</td>
<td>Flexible fibre buying policy in India allows small-scale planting along contours and field boundaries</td>
<td>Farmers devote only part of their land, time and capital to partnership activities</td>
</tr>
<tr>
<td>Campesino groups in Honduras are able to sell only well-known timber species</td>
<td>Greater tree spacing in plantations in Indonesia gives more space for non-fibre crops</td>
<td>Companies maintain a diversity of sources of raw materials, and remain open to the advantages of intercropping</td>
</tr>
<tr>
<td>Conflicts, mistakes and recourse</td>
<td>Regional dispute resolution committees support corporate responsibility in Ghana</td>
<td></td>
</tr>
<tr>
<td>550 court cases against Wimco in India by dissatisfied outgrowers</td>
<td>Special government office acts as firewall between investors and communities in Eastern Cape, South Africa</td>
<td>Contracts include conditions for arbitration, and a named arbitrator</td>
</tr>
<tr>
<td>Squatting and violence in taungya schemes in Indonesia</td>
<td></td>
<td>Companies do not overstate predicted positive outcomes at the outset of the deal</td>
</tr>
<tr>
<td>Limits to corporate responsibility</td>
<td></td>
<td>Investment in developing good personal relationships</td>
</tr>
<tr>
<td>Logging companies in Papua New Guinea ignore retention of community benefits by elite groups</td>
<td>Buyers from campesino groups in Honduras sponsor certification to gain market edge</td>
<td>Where possible, partners develop a culture of shared learning</td>
</tr>
<tr>
<td>Boise Cascade in Mexico ignores protests from environmentalists</td>
<td>Prima Woods in Ghana set up agreement with local community long before legislated requirements</td>
<td>Small claims courts are used to settle disputes more efficiently</td>
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<td></td>
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<tr>
<td></td>
<td>Effective legislation on investment rules, fiscal incentives and disclosure requirements to complement voluntary codes</td>
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<tr>
<td></td>
<td>Support for practical rules for alternative business structures</td>
<td></td>
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<tr>
<td></td>
<td>Alliances to foster equitable and effective small- and medium-scale enterprises</td>
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<tr>
<td></td>
<td>Promoting partnerships on their own merits rather than because a company needs to demonstrate social responsibility</td>
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</tbody>
</table>

External policies and institutions also present abiding obstacles. Regulations and bureaucracy can be opaque, overcomplicated and uncoordinated. Devolution to communities is sometimes merely dumping of responsibility without building capacity or increasing rights, while in some contexts corporate interests are able to sway policy in their own favour and avoid compliance with existing legislation. Much of what is described as corporate social responsibility, for example, is nothing more than cynical reputation management. But calls to greater accountability may serve only the biggest corporations, pushing out small- and medium-scale companies unable to make the grade, or worse still, pushing production into sectors that are not subject to scrutiny. Types of partners other than limited liability companies, e.g. cooperatives, should receive more attention and support – a shift of focus from “corporate” responsibility to “enterprise” responsibility.
Third parties also need more support and capacity building to be effective brokers of company-community deals or independent community development institutions. One agenda for these groups is to help shape governance around partnerships to empower community partners such that decision-making and benefit sharing are extended to the poorest members of local society. There are also tremendous – and as yet largely untapped – opportunities for communities to claim a share of rights and benefits from downstream processing and non-fibre forestry activities. Representative community groups with power at the bargaining table are sorely needed to realize these objectives.

Looking to the future: what can be done next?

With defensible property rights and a policy framework that allows flexible development of partnerships, companies and communities can collaborate for mutual gains and broader benefits to the environment and society. The case studies presented here suggest that the best outcomes will flow from a central emphasis on governance: getting the dynamics of decision-making efficient, equitable and sustainable. Companies and communities can learn from the experiences of others to establish, and then improve on, effective mechanisms for working together over time – and some of the tactics proven useful in doing this have been outlined above.

Other parties continue to have important roles to play. Governments that want to promote partnerships would do well to identify and prioritize realistic steps to achieving policies and institutions more supportive to partnerships, backed up by appropriate legislation, for example in the fields of decentralization, corporate scrutiny and fiscal incentives. Artificial financial environments, in which deals would fall away without funding, should be avoided. Non-governmental organizations, growers’ associations and other third parties that take representation or facilitator roles should help build local capacity in business and negotiation and develop alliances and links for collective action and information sharing, but also provide more specific services such as advice on corporate responsibility issues to small- and medium-scale enterprises. Banks and other finance agents could provide much needed insurance for small-scale producers. Donors and development agencies could also give incipient company-community deals useful support, for instance by funding initiatives to build effective local-level organizations and by focusing on ways to bring the benefits of partnerships to the poorest members of communities.

There is much still to be learned. Companies cannot be expected to wipe out poverty single-handedly and local groups are rarely the answer to the managing director’s dreams. But communities cannot afford to ignore the opportunities offered by the private sector, and pressure is increasing on companies who wish to expand their businesses to start addressing local concerns. If there is one basic message – it is that company-community forestry partnerships are worthy of support, but that prospective partners should enter the deal-making arena with their eyes open.
PART IV

COUNTRY CONTRIBUTIONS
INDONESIA
Chapter 9

PT FINNANTARA INTIGA’S OUTGROWER SCHEME: HUTAN TAMAN INDUSTRI (HTI) PLANTATION ESTABLISHMENT “INTEGRATED HTI MODEL”

Syamsul Fikar

Summary

Integrated HTI schemes or "Model HTI-pulp terpadu" have been established since 1995. Some of the initial concepts have been modified, but the principles have remained, and the schemes have been running quite well. The partnership scheme was initiated to establish pulp wood plantation (Acacia species) under individual long-term agreements of 45 years with many villages, according to rules determined by the rights and duties of both the company and the community. The company provides cash incentives as the means for respecting the local, traditional value of community lands, calculated on the basis of the proportion of planted area. Included in the agreement are incentives for: land and infrastructure; establishing high yielding rubber plantation on 7.5 percent of the Acacia plantation; developing the local species plantation on 10 percent of Acacia planted (for example, if the Acacia plantation realization is 100 ha, the company will establish 10 ha of local species); working opportunities; revenues from royalties on the 10 percent of Acacia wood production in every rotation; and community development activities. Cooperation or partnership might face obstructions in the future from the landownership status. There is an increasing preference for the land to become individually owned, even though the scheme was designed for a partnership with a group of community. Indeed, this scheme was designed only for partnerships between the company and the village communities as a group, but the company has to consider that the partnership scheme also needs to accommodate the individual contracts/agreements.

Background

PT Finnantara Intiga is a company located in two districts in the same province of West Kalimantan Province, in Sintang and Sanggau. According to the Ministry of Forestry Decree No. 750/Kpts-II/1996, Finnantara Intiga was granted 299,700 ha concession areas. This area will be reduced to an effective 187,000 ha owing to overlapping land use management (the proposal now under process). Since 1996, the realization of Acacia plantation has been 30,000 ha. The company already made an agreement with 130 villages on land use management with local people (7,500 householders and about 30,000 inhabitants inside the concession area).

13 The Land Use Manager of PT Finnantara Intiga, Sanggau (7 May 2002).

14 Hutan Taman Industri (HTI) is forest plantation established to increase the potential and quality of forest production area with intensive silviculture to meet the forestry industry’s need for raw materials (Ministry of Forestry Decree No. 70/Kpts-II/95).
The ethnic groups that live in Finnantara concession areas include the Dayak, Malay and transmigration families who came from the island of Java. Most of the people are Catholic. According to a CIFOR study done in 2001, the average income per capita of the local people in the Finnantara area is Rs 477,894 per year (US$48). Livelihood strategies are mostly farming, and shifting cultivation is still commonly practised in the area.

The shareholders of PT Finnantara Intiga are Nordic Forest Development Holding Pte. Ltd (NFDH) and PT Inhutani III. (Prior to June 2000, PT Gudang Garam, an Indonesian cigarette company, also held shares.) NFDH is a subsidiary company of Stora Enso, one of the biggest pulp and paper industries in the world. Since January 2002, 67 percent of the shares were held by NFDH and the remaining 33 percent by Inhutani III.

According to its company mission, the purpose of PT Finnantara Intiga is to establish and operate a timber estate in Indonesia. PT Finnantara Intiga envisions a professionally managed timber estate, with a minimum net plantation area of 50,000 ha by June 2003, operating on the basis of economic, environment and social sustainability. It is to produce wood at a minimum of 1,000,000 m3/ha to be used as raw material and marketed in Indonesia or elsewhere. PT Finnantara Intiga plans to obtain ISO 9001, Quality Management System certification during 2002; ISO 14001 and SMK3 (Health and safety management system) certifications are also expected.

This paper only describes company activity during 1995-2002 in developing the cooperation scheme of “Model HTI-pulp terpadu”, which is also called the Integrated Timber Plantation Model. This scheme was aimed to establish Acacia forest plantation together with the community in PT Finnantara Intiga’s concession area.

The Integrated HTI Cooperation Scheme or “Model HTI-pulp terpadu” – PT Finnantara Intiga

The Integrated HTI scheme or “Model HTI-pulp terpadu” aims to develop the Acacia plantation, and concurrently to implement community development programmes, so that joint plantations can be managed sustainably in the long term.

In establishing the Integrated HTI Scheme, PT Finnantara Intiga considered the following aspects:

- All of the concession areas belong to the local community even though the company has the right to manage the areas based on Ministry of Forestry Decree No. 750/Kpts-II/1996. The local community, in fact, claimed all the areas and have the right to use them according to the traditional “adat” or customary law.
- The local community uses the land for agriculture with shifting cultivation; accordingly, the local community needs a large number of areas to establish agriculture fields (rice, corn, etc.). The company-initiated intensive agriculture programmes would be reduced using lands for agriculture field, i.e. agroforestry, rice field, etc.
- The rotation of Acacia mangium or pulp plantation is seven to eight years. This is longer than other plantation types such as oil palm or rubber. This condition has been a disincentive for the local community to establish pulp wood plantation. Therefore, the company needs to create some alternative activities for the local communities during the period of one rotation (one to eight years) that would provide alternative income before the pulp wood plantation can be harvested.
- According to the Ministry of Forestry Decree (SK Menteri Kehutanan) No. 70/Kpts-II/1995 concerning the HTI land use plan (Tata Ruang HTI), the timber estate companies have to establish 5 percent of the crops for livelihood or “tanaman kehidupan”, and 10 percent for local species plantation, as well as for reserving conservation areas.

Based on the above conditions, PT Finnantara Intiga created a model for establishing a partnership with the local community for pulp wood plantation. Such a partnership would guarantee the plantation to be sustainable in the long term. The partnership scheme is described as follows:

- The partnership must be initiated with the community as a group, not individually, as is practised in the smallest community that is based on the subvillage group, the dusun or dampung (dusun is smaller than a village). The agreement is to be signed by all villagers who agree with all the terms and conditions of the scheme arrangement and who are willing to joint the partnership.
The agreement is for 45 years, calculated as the sum of 35 years for the time of concession years according to government regulation and one rotation (seven to eight years).

Local people get the first priority to work in their areas that will be established for pulpwood plantation. Those who live outside the dusun can still work following the landowner’s permission.

Incentive for the land will be given to the community during the period of agreement. The amount of land incentive is Rs 40,000 (US$4) per hectare planted land of the pulpwood plantation.

The company provides incentives to build a social infrastructure for community use in each Dusun; the amount of incentive is Rs 20,000 per hectare planted land of pulpwood plantation.

The company will establish high-yielding rubber plantations (karet unggul) on 7.5 percent of land planted. This karet unggul can still be changed by other plantations that are categorized as crops for livelihood, “tanaman kehidupan”, with an equal price establishment cost. The purpose of the karet unggul is to provide the community with mid-term revenues, since the rubber plantation can be produce latex after five to six years.

The company will establish 10 percent of the areas for local species plantation, the purposes of which are to preserve biodiversity and to provide the local community with long-term revenues from the wood and its by-products such as fruit and latex. Two systems are developed for local species establishment: the total planting of local species plantation in certain areas that provide for local species, and managing the existing area established by the local community, i.e. the local system of fruit gardening (tembawang), secondary forest and forest cover.

Royalties are given to the local community based on 10 percent of wood production every rotation. The minimum price of the royalty will be Rs 7,500 (<US$1) per cum, and will be modified depending on the market price when harvesting is conducted.

The company provides technical assistance to develop a modern agricultural system i.e. the establishment of new rice fields and agroforestry, etc. These activities will be managed by company staff in close cooperation with government extension (balai penyuluhan pertanian) at the district (kabupaten) or subdistrict (kecamatan) level.

The company helps the local community establish local institutions "kelompok usaha bersama (KUB)" or the community development group, which aims to strengthen the local community in developing their potential economic opportunities. Through this KUB, the local community can manage all working opportunities and potential income from HTI plantation establishment, including royalties from wood production. It is hoped that they can become a company partner to establish plantations independently.

The development of the agreement process with the local community

Cooperation between the community and the company is developed by following certain closely linked procedures and steps. The company starts with land use planning, followed by field orientation, social preparation, integrated extension programmes, land measuring and mapping, negotiation, and finally, development of an agreement. The implementation of the agreement should be included in the process of plantation establishment.

Planning

Planning activities are supported by digital aerial imagery (DAI) to identify the potential land. The company can identify land cover of the area in more detail, based on these DAI photos.

Field orientation

Field orientation is needed to assess the field condition that was already identified from DAI, and provides information about social conditions and accessibility of the areas.

Social preparation

The company arranges with all community members who represent villagers or community leaders to inform them about the HTI pulpwood plantation that would be established in their areas. The meeting can be arranged formally or informally, especially if it informs the community leader. After providing information, the company lets the community members decide whether they would like to continue the process or not.
Integrated extension

If the local community provides its positive feedback of the HTI Integrated Schemes, the step will be continued in other meetings involving MUSPIKA\(^\text{15}\) or even the district (bupati) head, depending on the situation. In each meeting, the company may learn of the villagers’ overall opinions as to whether they will accept or not, or if there is still any confusion on the information provided.

Measuring and mapping

If HTI activities are acceptable to the villagers, the company will proceed with the activities to measure the areas provided by them. However, the villagers may decide not hand over the total areas as agreed, depending on the land status. Rather, they may decide to hand over just 30-50 percent of the areas initially provided.

Negotiations

Negotiations can be held after land measurements and after the big portions of the areas have been cleared, since incentives and/or compensation are calculated according to HTI plantation areas that can be planted. In this step, the land use plan in the subdistrict level could also be discussed to design the location of HTI plantation, the rubber plantation, and local species areas.

Signing the cooperation agreement

Before each agreement with each village is signed, the company arranges one meeting with the community and explains the draft of the agreement to the villagers, who will sign afterwards. In the meeting, the company will clarify the contents of agreement and the details of cooperation, including the rights and duties of both parties. After everything is clear, a meeting will be held for the signing of the agreement, and attended to by the entire village community, company representatives and MUSPIKA.

Implementation

Before plantation establishment activities start or land preparation is conducted, there is a community tradition called Ngudas. The Dayak people believe this tradition has to be observed in order to prevent something from going wrong, and also to indicate that the cooperation can be continued. All community members have to obey of the tradition of adat law.

Implementing cooperation means following all of the contents of the agreement that have already been agreed upon by both parties. The establishment of plantation will be the main activity, and the community development programme will be implemented along with it.

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\(^{15}\) MUSPIKA is the Subdistrict Board consisting of a head, a police chief, and a military chief.
Challenges in implementing the “Model HTI-pulp terpadu” scheme

During seven years of implementation from 1995, the schemes have been running smoothly. The first implementation year was not totally successful: obstacles occurred because the local community did not clearly understand the nature of the Integrated HTI schemes activities; some of them had bad initial experiences under the same project, such as Reboisasi Project and PT Inhutani III HTI Project. Moreover, the community has always compared the benefits of HTI schemes with the oil palm plantation that they already knew so well.

The model started running and became accepted in 1997 after the company modified some approaches by involving local government (Musyawarah Pimpinan Kecamatan [MUSPIKA]) in the integrated extension programmes for the local community. During 2000-2002, PT Finnantara Intiga modified some components of the schemes, such as increasing the amount of compensation/incentives. They increased land and infrastructure incentives so that rubber plantation became 7.5 percent of the area planted, and modified the policy of local species development. The most effective modification occurred when the company decided to shift from mechanical to manual land preparation, a simplification of the plantation establishment, thereby increasing the community’s income.

Some challenges in implementing the entire agreement can be explained as follows:

- The infrastructure incentive can be implemented well according to its purpose. The purpose is to provide to the community as a group. However, if the land belongs to individual owners, the incentives are for personal interest only. In this case, the company still has to provide and establish the social infrastructure by incurring extra costs.
- The community development group “KUB” was not established according to the planned schedule, which was before the implementation of the plantation establishment. KUB intends to be a village institution that can implement all of the activities in establishing plantations. KUB is in a strategic position to be facilitator in the communication between the community and the company in respect of HTI establishment. The main problem in developing KUB has been inadequate skills. Human resources in the village for running activities, in addition to resources from company staff, are limited in handling the supervisory process of establishing KUB.
- Implementing intensive agriculture system (intensification) has not been easy; the challenge has been how to change the habits of the local people, shifting from traditionally to the modernized system. At the beginning, the company had supported the farmer with material for establishing the new intensive agriculture system – i.e. improved seeds, fertilizers, insecticide and herbicide. Now, the company has to provide many more demonstration plots, more adequate training and fuller technical skill assistance.
- Rubber plantation compensation should be established one year after HTI is planted, because the purpose of this plantation is to provide mid-term revenue/income for the local community. On the other hand, the high-yielding rubber plantation is still of no interest to the community because they do not have enough information to be convinced that this plantation will bring higher yields than the local rubber plantation (jungle rubber). Further, establishing rubber plantations requires skills that are more technical and is very time-consuming.

Conflict in implementing the Integrated HTI Scheme or “Model HTI-pulp terpadu”

Some conflicts have been occurring during seven years of scheme implementation, most of which were not related to the schemes arrangement itself. Some were caused by personal interests of individual community members, and some were stimulated externally. The conflicts arose in when the company’s (temporary) camp was burned down and when company assets, such as cars, tractors, motorbikes, etc., were hijacked. There were also a few cases of the plantation being set on fire owing to personal conflict among community members.

The company should handle conflicts by deliberation (bermusyawarah) with the community. A few cases deemed criminal were solved through the courts. MUSPIKA always acted as a facilitator in conflicts with the local community.
From 1995 to 2002, the biggest case of conflict was caused by land status. Land status may be a problem because there is no clear boundary between two individual landowners or between community group landowners from two different villages. The negative impact of the conflict could be overcome by a land agreement, or the landowner can be made to withdraw from the cooperation/partnership. According to tribunal law in the past, the land always belonged to the community group, but today there are increasing preferences for individual-owned lands. This is due to the increased value of the land because of the development of large-scale activities by some companies like oil palm and HTI.

Preferences of individual land status will become a challenge for future HTI plantation establishment, because the company established the scheme with the community as a group and the agreement was prepared accordingly. If the company prepares agreements with individual landowners, it should arrange that all technical aspects are handled in the agreements one at a time, making for a vast number of different land agreements.

Conclusion

The partnership scheme needs the full commitment of both parties (the community and company), as well as government support. The schemes could be implemented better if both parties benefited from HTI activities. From the company itself, a full commitment from top management down to the field staff level is required; they should all share the same views so that none of the parties misses any information. The field staff should keep implementing the schemes according to the objectives.

Transparency and open communication are essential to establish mutual agreement between the company and community. The company staff in the field occupy an important position because they closely communicate with the community on a daily basis to run field activities, as field staff become representatives of the company.
Chapter 10

POTENTIAL AND DEVELOPMENT OF COMMUNITY FOREST PRODUCTS

Arif Aliadi\textsuperscript{16} and Budi Rahardjo\textsuperscript{17}

Lembaga Alam Tropika Indonesia (LATIN) has been working in the development of community forestry in areas such as the Krui Coast of West Lampung (Lampung Province), Buniwangi village and Sampora in the Sukabumi District (West Java), Cileuya village and the Sukasari Kuningan District (West Java), and some villages around the Meru Betiri National Park Jember District (East Java).

The locations have been assisted by local organizers in periods from two to seven years. By now, the LATIN community forestry area has supplied agricultural and non-timber forest products. Some samples of agricultural products are local rice and various types of banana. Non-timber forest products include resin/damar mata kucing or “resin eye of cat” and numerous types of medicinal plants. In the long term, these areas may produce other forest products such as teak wood, mahogany, pine resin, and provide services for ecotourism. However, the communities face challenges and constraints in developing these products. Results so far have ranged from failure to varying degrees of success.

These are the constraints in the development of community forestry products:

- To guarantee tenurial rights or management
- To guarantee the earning of benefits in long-term periods
- To provide market guarantees
- To build a strong local institution in the community
- To allow greater authority and space to different stakeholders in forest management and development of partnerships between the community and industrialists or with other parties

\textsuperscript{16} Executive Director of LATIN.

\textsuperscript{17} Director of the Community, Governance and the Institution Programme.
Chapter 11

COMMUNITY-BASED FOREST PLANTATIONS

The importance of incorporating private stakeholder participation in sustainable forest plantation development

Aris Adhianto

In Indonesia, forest plantation development activities will become more complicated and delicate. Most of the work will be on intensive forest rehabilitation programmes, restoration planting of degraded natural forests, the securing of forest plantation sustainability and developing new forest plantations.

Under such circumstances, a sustainable forest management programme will be difficult to apply, particularly owing to ongoing slow economic recovery and weak law enforcement that puts the sustainability of our forests at stake. At the same time, encroachment, illegal logging and conflict issues are growing significantly.

The Indonesian Government is obviously limited in what it can do. Its greatest value, therefore, is in providing the local private sectors with the opportunity to help bring investors to Indonesia, to generate a multiplier (snowball) effect to stimulate the regional economy development programme, improve the welfare of the community and encourage sustainable, tropical forest management.

To deal with these issues, a comprehensive community-based development programme, including a forest resource-based economic development plan, should immediately be introduced to all stakeholders (central and local government, the private sector and the local community). This would aim at providing new employment opportunities, drive and keep rural economic development in motion as well as improving local government revenues. Partnership cooperation between the local private sector and communities should be incorporated to allow the programme to be highly flexible in adapting to particular areas, social infrastructures and cultures.

A new approach to forest development should be introduced by developing a model for future development of sustainable forest in the form of partnership joint ventures between private companies with cooperatives of the local community where the government acts as a facilitator to ensure investment security and maintain consistent policies to achieve forest sustainability and improve incomes of the local community.

A programme that achieves such results cannot be imposed externally. More than ever before, it requires partnerships to support comprehensive development strategies defined under good governance leadership.

Agriculture has been a partial means of rural people’s livelihoods. Improved agricultural productivity is becoming even more imperative in regions where rural poverty dominates. Since economic growth is essential for forest plantation, combining sustainable forest plantation and agriculture in the schemes are vital for reducing poverty. Accordingly, productivity gains, sharing of research and technology and successful integration of agriculture into the development of plantation forest have all become essential.

18 Director of the Forestry Department, PT Wira Karya Sakti, Wisma Bil Menara 2, JL. Thamrin 51 Indonesia. Tel.: 021 398 34473, fax: 021 39834707, e-mail: ariadhi@cbn.net.id (Jakarta, 21 May 2002).
In Indonesian Law No. 41/99, Articles 8, 30 and 32 concerning forestry, it is clearly stipulated that forest management should be conducted by involving the active participation of the local community and developing partnerships through its cooperatives.

Since the beginning of the reformation and decentralization period, the government has indicated its willingness to support local communities, allowing them to actively participate in managing the natural forest resources.

Various agencies have carried out intensive studies and pilot projects on empowerment and community development to reduce forest encroachment by those living in or close to remote areas. Some of these agencies include the Center for International Forestry Research (CIFOR), Japan International Cooperation Agency (JICA), Overseas Economic Cooperation Fund of Japan (OECF), Department for International Development UK (DFID), German Technical Cooperation (GTZ), the European Union (EU), the International Tropical Timber Organization (ITTO).

However, the studies have not been followed by sufficient action by the Ministry of Forestry or by other government agencies.

Unfortunately, until now an effective model has not been found, primarily as a result of the following:

- Bureaucrats are not ready to accept the fact that decentralization and coordination among government agencies have been insignificant up until now.
- The fact that the local private sector (small- and medium-sized enterprises) will soon become a strategic player in the economic development under regional autonomy had never been anticipated. Locals understand more than external companies about the culture and the social constraints of their respective local community partners, which many local governments at both the provincial and district levels have failed to recognize.
- Up until now, the subsidy policy implemented by the Ministry of Forestry has been ineffectively used for the intended programmes. The Ministry of Forestry should consider introducing and creating an incentive policy. It would be for those who can manage their forest sustainably in participatory partnership with the local community in social, ecological and economic matters. The term “incentive” does not only mean “cash” only, but also “in kind” within the government’s authority.
- The government is now considering revising the regional autonomy laws currently seen as scaring off investors and threatening national unity. Many investors have complained that districts were imposing new taxes and policies in violation of previous contracts signed with the central government. This will obviously push Indonesia into another crisis, that of confidence. Close relations between the government levels (central, provincial and district) and among government and the private sectors have been severed. Even worse, the people have lost confidence in the government.
- Regarding the cooperative venture issue, there are many sceptics because cooperatives in the past were just an empty shell used for conducting charity shows; it will not be easy to fill them with substance.
- However, negative socio-economic impacts during the development of the Industrial Timber Plantation concession (HTI) may occur, such as the disruption of traditional land rights and patterns of land use, the reduction of cultural values and possible disputes under regional autonomy implementation. To prevent such impacts, a genuine cooperative (sejati dan mandiri) is proposed as the only suitable institution for the partnership incorporation.
- A sharp increase in unemployment and poverty fails to recognize both the complex confluence of events that have undermined the economy of the local people, but progress has been made in developing the region so far.

Meanwhile, economic recovery has not been fast enough, and as the International Monetary Fund (IMF) Loan Program with the government is expiring very soon, the government is buying time for the economic changes needed to rebuild and reform the economy. What, then, will happen with the Indonesian tropical forest if the donor countries, for one reason or another, do not pay off the Ministry of Forestry?

With the United States reeling from terrorist attacks and Japan mired in a decade-long slump, Indonesia was supposed to steer the global economy through the storm. In a report prepared prior to a two-day annual donor’s consultative group of governments on Indonesia (CGI) meeting, which began on 7 November 2001 in Jakarta, the World Bank painted a bleak picture of the Indonesian economy. Instead of embarking on much-needed economic reforms, Indonesia is likely to just “muddle through” its economic woe.
In addition, the United States, the world’s largest emitter of carbon dioxide, has not revoked its decision to remain outside the Kyoto Protocol framework, a decision announced by the United States President in March 2001. This is not good for Indonesia, which has begun developing a significant timber plantation estate, which could be valuable for reducing global warming in line with the Kyoto Protocol.

Communities within the forest land and/or its vicinity should be organized into cooperative ventures called *koperasi tani hutan* (forest farmer cooperative) (KTH), in order to guarantee successful gains at the social, technical and economic levels, and to be environmentally sustainable.

Such strong support from local institutions (both the local private sector and KTH) would ensure the implementation of integrated planning, community involvement and monitoring of the economic and technical feasibility as well as performance of all management activities with respect to sustainable, planted forest.

The growth of a comprehensive community-based development programmes to create jobs, send children to school, build community health centres, empower the poor to become responsible for their own development, nurture the environment and spread benefits equitably, requires broad participation. Above all, the voices of the poorest people must be listened to by all the stakeholders.

Quality growth is an effective way to prevent conflict and to rebuild confidence, societies and economies torn by Indonesia’s recent multidimensional crisis.

Governments and people must carefully and clearly determine and understand the capacity of their forests and forest lands to provide these benefits, goods and services.

We are deeply sensitive to the importance and the critical nature of the above issues. Accordingly, we anticipate the sincere commitment, participation and support of all stakeholders in the region to successfully carry out this programme.

Heavy as they are, the costs of action must be weighed against the price of inaction. If the situation worsens and we fail to respond, our forests will face a far greater threat.
PART V

COUNTRY CONTRIBUTIONS
SOUTH AFRICA
Chapter 12

MAKING A DIFFERENCE IN SOUTH AFRICAN FORESTRY

PowerPoint presentation

Graeme Harrison
Forestry - making a difference

The South African Experience

FEDO

Forestry Enterprise Development Office
DEPARTMENT OF WATER AFFAIRS AND FORESTRY
Forestry in South Africa

Plantation Area by Province

TOTAL PLANTATION AREA: 1.5 million HECTARES

Forest Sector Review

<table>
<thead>
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<th>Sector</th>
<th>R (million)</th>
<th>$(million)</th>
<th>% of GDP</th>
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<td>GDP Forest industry</td>
<td>1,798</td>
<td>179</td>
<td>0.4%</td>
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<tr>
<td>GDP Forest products</td>
<td>8,998</td>
<td>899</td>
<td>0.2%</td>
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<tr>
<td>RSA Total GDP</td>
<td>455,463</td>
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SOUTH AFRICAN FORESTRY
Outgrower schemes in SA

Individually owned plots

<table>
<thead>
<tr>
<th>Category</th>
<th>Area (ha)</th>
<th>No. growers</th>
<th>Av. Size</th>
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<tr>
<td>Managed</td>
<td>24,205</td>
<td>12,284</td>
<td>2.0</td>
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<tr>
<td>Independent</td>
<td>19,250</td>
<td>6,592</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>43,455</td>
<td>18,876</td>
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</table>

Communal forestry projects

<table>
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<th>Existence</th>
<th>Area (ha)</th>
<th>No. Projects</th>
<th>Average Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
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<td>3</td>
<td>1,057.50</td>
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<tr>
<td>Proposed</td>
<td>136</td>
<td>4</td>
<td>70.0</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>1,550</td>
<td>3</td>
<td>776.5</td>
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<tr>
<td>Total</td>
<td>3,798</td>
<td>10</td>
<td>1,904.00</td>
</tr>
</tbody>
</table>

45567 ha = 3% total afforested area

SOUTH AFRICAN FORESTRY
**Communal Projects**

SOUTH AFRICAN FORESTRY

**Enabling conditions**

SOUTH AFRICAN FORESTRY
Signs of a healthy project

1. Fair and equitable benefits (employment, income & other)
2. Robust, representative institutions at the community level
3. Capacity development mechanisms
4. Sound environmental practice
5. Strong / strategic partnerships
6. Transparency inter/intra community
7. Supportive government
8. Real net benefit
9. Mechanisms for problem solving
10. One government champion agency to co-ordinate / facilitate
11. Strong leadership, united communities
12. Sound silvicultural practice
13. Auditing, checks and balances - social, environmental and financial
14. Strong market linkages
15. Economically sound
16. Conflict issues identified and resolved early

What is important for sustainability

1. Market-wise (Correct species and product)
2. Diversity management (leadership gap) - engaging and managing diversity
3. Internal and external politics (project = stage and platform)
4. Engaging critical skills (“strategic partnerships”)
5. Connectivity - with established organisations, government
6. Contingency “Eggs in one basket”
7. One-stop-shop: networker, facilitator, problem solver
8. Transparency, communication, understanding
9. Empowering model, transfer ownership and skills - withdrawal strategy
10. Environmental best practice
11. Systems and institutional support
12. Infrastructural support - linkage with key role-players and plans
Chapter 13
SAPPI FORESTS: PROJECT GROW

Dutliff Smith

Brief outline of the project

The upliftment of the impoverished rural communities in South Africa is high on the government’s agenda. In this regard, Sappi, Gencor Development Fund and the KwaZulu–Natal Department of Agriculture launched the Sappi Forests Outgrower Scheme during 1983. The main objectives are job creation and socio-economic development. The project has grown from three farmers managing 12 ha in 1983 to more than 8,000 growers currently managing 13,000 ha in KwaZulu–Natal.

Farmers are provided with free seedlings, technical advice and a guaranteed market for their product. Owing to the nature of forestry, the farmer can only expect an income after eight to ten years when the trees reach felling age. However, in assisting the farmer during this period, Sappi pays the grower advances for work done on his or her plot. In return, the farmer is contracted to sell his or her crop to Sappi when the trees are ready for harvesting.

Sappi’s contribution

The project is currently fully funded and managed by Sappi Forests. Sappi contributes in the following ways to the project:

- Financial contribution to the growers
- Provision of free seedlings
- Technical assistance to the growers
- Providing a secure market for the timber at maturity

Financial contribution

Each grower is entitled to an interest-free loan of up to R 2,700 per hectare. Money is advanced to the grower for land preparation, planting, weeding and fire protection. The growers are expected to do the work themselves and must realize that the trees belong to them. To date, Sappi has invested more than R 10 million in the project in terms of loan advances to growers. This investment excludes Sappi’s annual operational and seedling costs pertaining to the project which currently amounts to R 5 million per annum.
Seedlings

To ensure optimum production, i.e. tree growth per site, it is important that growers are provided with the seedlings best suited for that specific area. All seedlings supplied are produced by Sappi nurseries to ensure that the growers are supplied with the best genetic material available. To date, the value of the seedlings made available to growers from the project inception is R 5.2 million. These seedlings are made available free of charge and growers ARE NOT expected to repay Sappi for the seedlings.

Technical assistance

Qualified Extension Officers assist the growers in selecting the most appropriate sites, as well as assisting with preparing, fertilizing and planting the land. A site selection Check Sheet needs to be completed for each site to ensure that plantings do not take place in environmentally sensitive areas. The Extension Officers also visit the growers frequently after the trees have been established to provide assistance with weed control and the preparation of firebreaks.

Sappi, if requested by the growers, may also assist during negotiations with harvesting and transport contractors. Sappi acts as facilitator/coach to assist growers during these negotiations to ensure that the grower is charged a market related price by the contractor.

Community participation

One of the objectives of the project is that it should have positive spin-offs for the community at large and not only for the few participating growers. Although the growers are expected to do as much of the work themselves they often have to employ members from the community to help them with their forestry activities. The project also strives to ensure that as much as possible of the money paid to the growers is retained within the community.

Challenges

The project faces the following challenges.

- Approval of water licences
- Inadequate road infrastructure
- Funding for small, medium and micro enterprises (SMMEs)
- Theft
- Paying difficulties

Water licences

Since the incorporation of the former homelands there has been confusion regarding the procedure for dealing with afforestation permits on non-title deed land, i.e. communal land.

The National Water Act (Act 36 of 1998) addresses some of these shortcomings, but still does not provide a proper procedure for dealing with multiple applications from small growers. The following legislation all have some regulatory effect or specific requirements, which should be adhered to before new areas can be planted:

- National Environmental Act (Act 107 of 1998)
- Environmental Conservation Act (Act 73 of 1998)
The above imposes specific and often conflicting requirements for applicants. However, Sappi has initiated a workshop, facilitated by the Institute of Natural Resources, to formulate a procedure for applications on non-title deed land. After several meetings with the different government departments, the process has been streamlined to an extent.

According to this process, the Department of Water Affairs will consider group applications per tribal authority for new plantings in the future. Sappi will record GPS (geographic positioning system) readings for all new plots prior to planting. The Department of Water Affairs will then ensure that no new plots are located in water stressed catchment areas. As part of the consultation process, the GPS points are also distributed to 12 other interested and affected parties for their perusal and comments. The comments of the different interested and affected parties are collated and form the basis of the scoping report to be submitted to the KZN Department of Agriculture and Environmental Affairs.

**Funding of small, medium and micro enterprises (SMMEs)**

The project, especially in the Zululand area, has now entered the second phase whereby the focus of the grower has changed from planting and managing the trees to harvesting and transporting the timber. With this new phase, entrepreneurs are needed to assist growers with harvesting and transporting the timber to the various Sappi mills. Although there are a number of people willing to assist with these functions, they lack the management skills and resources to become involved. One of the main challenges for these entrepreneurs is to obtain start-up capital to purchase the necessary equipment for their new businesses. This is especially difficult in view of the fact that they do not have any form of security against which they can borrow money. Sappi has approached commercial banks and private companies to seek assistance in this regard.

**Timber theft**

Timber theft is also a challenge in the Zululand area. Theft occurs mainly in specific areas and can be attributed to the fact that growers also have access to markets, other than the Sappi. Sappi and other timber companies in the area have reached an agreement that timber will not be purchased from "Project Grow" suppliers. However, unscrupulous timber traders offer the grower a slightly better price and try to entice the grower not to honour his agreement with Sappi.

**Paying difficulties**

As indicated large amounts of money are paid out to the growers, either as advances during the growing period of the trees, or for timber delivered. As most growers are located in remote rural areas, they do not have access to banking facilities. In the past, these growers were paid by cheque, which they could then cash at their local store. However, new legislation with regard to cancellations of crossed cheques makes this method of payment extremely difficult. Sappi is in the process of investigating new payment methods taking cognizance of the lack of a banking infrastructure in the rural areas.

**Inadequate road infrastructure**

The existing road infrastructure is not sufficient to cater for the development that has occurred in the area. There is a need for access roads, which link plantations to district, or local roads. This will ensure that timber can be utilized if planted far away from a current road and that the cost for extracting the timber is therefore not exorbitant. An ideal road construction system should be based on manual construction that could create many short-term jobs.
Success

An indication of the success of the project is the fact that it is still running after 17 years and people are still keen to join. It is clear that the project creates a large number of direct and indirect jobs. The main success of the project is that it gives people from impoverished rural areas access to the forestry industry, which would previously have, owing to the high entry barriers, been inaccessible. The project also acts as a catalyst for the stimulation of other businesses in the area. Thirty-three of the growers have used the money generated from their plots to start other businesses in the area and currently employ 750 people. Some of the growers have become independent forestry contractors, opened tuck shops and started their own taxi businesses.

The project in itself has created employment for 8,624 growers participating in the scheme. It is estimated that an additional 1,120 people are employed by contractors who assist the growers with planting and the harvesting of their plots.

The project contributes to the upliftment of women in the rural areas of KwaZulu-Natal. Currently 80 percent of the growers with Sappi contracts are women.

One of the project aims is that as much as possible of the money invested in the project should be retained in the community.

The job opportunities created by the project should also be filled by the community where the trees are planted. About 42 percent of the turnover remains with the grower, a further 50 percent stays within the community through payments to harvest and transport contractors, while 8 percent goes back to Sappi as loan repayment.

Most growers have put at least two of their children through school and university with the money. Fifty-three-year-old Babo Mbonambi has built a church for the community from the proceeds from his plots. These types of benefits would probably never have been possible with the subsistence farming practised in the past. As stated in Babo's own words "with farming if there is no water, the crop just dies. With forestry you can be surer of a crop".

Key learning areas

Inherent in the success of the scheme is the fact that all participants benefit. There is neither hand-out nor a paternalistic approach from Sappi – nobody gets anything free of charge. The keywords are ownership, responsibility and accountability, and this must lie with the grower.

The fact that the loans are made available interest-free contributes to the success of the project, as the scheme is more profitable from the growers' point of view.

Community projects often fail owing to the absence of a secure market for the final product. The fact that Sappi guarantees a market at a competitive price contributes to security from the grower's point of view. It is also important that the whole community is involved in the scheme. iNkosi, Indunas and the community members should be involved in the development of a scheme in a specific area. The existing tribal authority structures must be used when the project is introduced to a new community.

Experience has shown that larger plots are cheaper to establish and manage than small one-hectare plots. In terms of extracting the timber, it is also beneficial to have larger plots. However, suitable forestry land and environmental conditions in a specific area will determine plot sizes.

All plots should be mapped. Sappi is in the process of capturing all the plots on a geographic positioning system.
Further enhancements

There is a real opportunity for other companies, organizations and non-governmental organizations (NGOs) to become involved in capacity building relating to the management of small, medium and micro enterprises (SMMEs) in the area. There is a real need for financing of equipment.

There is also an opportunity to assist the farmers in organizing themselves into a cooperative or timber farmers’ union. This will give growers more power in lobbying and negotiating with local and national government. It is important that the farmers become independent of Sappi with regard to permit applications.

This forestry project has huge potential in facilitating an integrated development programme. Links with other regional economic development groups (NGOs) will add value to the base project by encouraging SMME development.
Chapter 14

JOINT VENTURES BETWEEN FARM FORESTRY AND PRIVATE SECTOR: AN AFRICAN NGO PERSPECTIVE

PowerPoint presentation

Rory Mack
An NGO-Providing an integrated rural development service to rural communities through the establishment of appropriate institutions, local economic development and training to empower rural people, particularly women, in their own development efforts in order to overcome poverty

Staffing of 48, of which 85% are from previously disadvantaged groups

Three regional offices and thirteen district offices

Income from consulting, contracting and sponsorship
Forestry Overview

The only NGO in South Africa contracting to the industry in terms of managing forestry outgrowers
13 years experience in small scale forestry woodlot development
Working in 44 tribal areas
Annual harvesting 20,000 wet weight (wwt) eucalypt pulpwood (336 growers)
community-orientated approach
  manual job creation emphasised
  local contractor development
  local forestry graduates employed

Operations Area

Geographic Distribution of Growers
Forestry Initiatives

- Small-scale growers Project Grow - Eastern Cape & Southern KwaZulu Natal
- Municipal Plantation Rehabilitation programme
- Working For Water two projects initiated
- Lambasi community forestry scheme Technical Cooperation Project (TCP) proposal to FAO
- Assessment of 3 x Umzimkhulu Community Forestry Projects
- Business plan development for SMME development
- Establishment of a Forest Industry Forum – Small-Scale Growers

Lima Forestry Organisation

R. Mack
Forestry Manager

D. Msomi
Operations Manager

B. Dambuza
Forestry Clerk

M. Mokoena
Umzimbali

B. Ngcisi
Ndwedwe

C. Ntanjana
Inkwenkweni

W. Xaba
Umzumbe

M. S. Ngcobo
Icholweni

F. Xaba

M. Mpukwana
Bizana/Flagstaff

Umzimkhulu

Z. Mxotha

F. Nkethe

W. Bhengu

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Partnerships

Topic of Presentation

The partnership and level of participation in the development of contractual agreements with regard to particular products and scale of markets

Partnerships - Types

Three types of partnership exist in the industry:

1. Individual growers enter into a contract with the milling company to grow trees, in return for extension, loan support and a market;
2. A unique arrangement where the miller contracts an NGO to fulfill and implement its obligations, as described in 1. above;
3. A communal forestry trust contracts an affiliated operating company, a management company and banker to grow the trees and manage operations on their behalf.

Private individuals also grow and market their timber individually, or join a marketing co-operative

All the above partnerships and individual growing arrangements relate to hardwood pulpwood production for local pulpmills, a few are for the production of bark.
Partnerships - Type 1

Private Company - Grower

- The private sector investor/miller enters into an agreement with individuals on communal land to grow pulpwood (Eucalyptus spp and A. mearnsii, Black Wattle) on an 8 year cycle.
- The company facilitates water licenses, extension service, loans (either interest-free or 8-10% simple interest) certification and a market.
- Companies either plant the crop by contractor or allow the grower to do the work.
- Contracts between the company and the grower are not negotiable, usually for a two-crop duration.

Partnerships - Type 2

Private Company - NGO (empowerment company) - Grower

- The company negotiates a management agreement with the NGO to canvas growers, get water licenses, plant trees, maintain, administer and facilitate the harvesting thereof. The rates per category are re-negotiated annually.
- The NGO performs all the tasks required and is audited by the company on a regular basis.
- Contracts between the company and the grower are not negotiable, usually for a two-crop duration.
Partnerships - Type 3

Community Trust, Operating Company, Management Company and Banker

- The community forms a trust to lease and develop the land
- Capital finance was raised through government land grants
- The banker holds the capital (10% interest) and advance funds quarterly together with a loan portion on a 80:20 ratio
- The trust establishes an operating company to manage the business and enters into a management agreement with a technical adviser
- Supply agreements are negotiated with local companies for pulpwood and sawtimber products

What has worked

- Commercial tree farm plantings within reach of pulp mills generate sustainable income for poor rural communities
- Companies have created a viable micro-industry in pulpwood production which is expanding annually by up to 2 500 ha
- Environmental certification of these managed projects benefits grower and pulp mills
- Creating an NGO management contractor who impacts across the full spectrum of community needs
- Communal forestry projects in Umzimkhulu
- Contractor/grower-driven approach to work implementation
What hasn’t worked

- Inadequate information and awareness programmes, for rural communities concerning government policy and legislation influencing on tree farm activities (National Water Act, Environmental Conservation Act, National Forest Act)
- Integration of small-scale farmers into the industry decision making process
- Lack of community skills in company management carrying out outgrower development and high turnover of staff
- Industry is targeting pulpwood alone
- Social responsibility projects without commercial considerations
- Water license issues have stalled development
- Lack of integration with other regional development
- Lack of trust between government forestry department and commercial growers/millers

EXISTING AND POTENTIAL FORESTRY IN THE EASTERN CAPE
Development Challenges

Government to facilitate development support structure
- regular information dissemination
- policy and legal awareness
- mentoring network

Forest Industry Forum to be formalised and to act as catalyst

Institutions for small-scale growers to be established

Road infrastructure - poor access to be alleviated

Commercialisation of small grower operations

Regional development strategies to be drafted

Water License application process revision
- to lower costs for communities
- to reduce time consumed by the process
- to ensure development is not stifled

Diversify tree products grown by communities

Research on grower economic’s and factors affecting development required
ANNEXES