



Company-community forestry partnerships

From raw deals to mutual gains?

An international review with proposals for
improving forests, enterprise and livelihoods

James Mayers and Sonja Vermeulen

2002

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Executive summary

Introduction

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 countries¹. 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 (Figure 1 overleaf).

The study generated detailed results on deals in six countries, namely South Africa, India, Indonesia, Papua New Guinea, Ghana and Canada, and supplemented this with a set of shorter examples of deals from around the world. This set of examples represents a global sample rather than a comprehensive review².

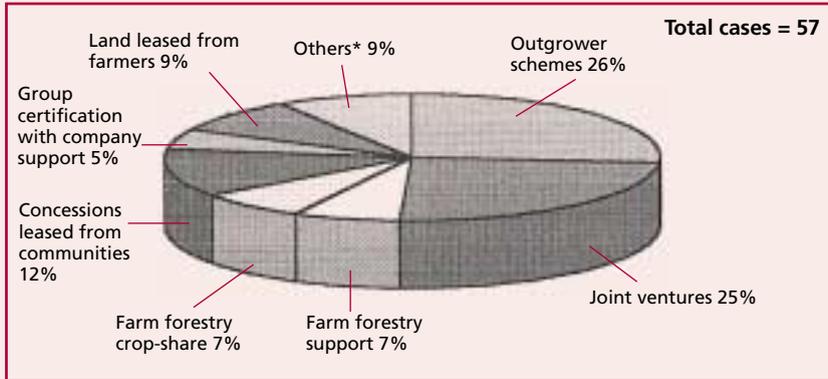
1. South Africa, India, Indonesia, Papua New Guinea, Ghana, Canada, Brazil, China, Guatemala, Nicaragua, Honduras, Mexico, Colombia, Zimbabwe, Philippines, Thailand, Solomon Islands, Vanuatu, Australia, New Zealand, Portugal, Ireland and USA.

2. 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 organised for making profit
- **Communities** include farmers and individual local “actors” as well as community-level units of social organisation such as farmers’ groups, product user groups and cooperatives. When community groups organise for profit, there is an overlap between ‘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.



Figure 1 Company-community forestry partnerships studied



Notes on Figure 1: The main products from outgrower schemes, joint ventures and farm forestry are timber, commodity wood or pulp.

*Others include: corporate social responsibility projects, forest environmental service agreements and co-management for non-timber forest products.

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 globalisation. Globalisation of markets, capital flows and technology holds great potential gains for communities with access to forest resources. To realise this potential, communities need to be able to exploit their comparative advantages and seize new livelihood opportunities whilst 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 globalisation, with greater privatisation 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 organise 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 unrecognised



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 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.



Country	Land tenure context	Types of schemes reviewed	Notable features
South Africa	Some community land; some large private plantations; many smallholdings – land redistribution is taking trend away from large-scale towards smaller-scale	<ul style="list-style-type: none"> • Outgrower schemes – non-timber forest products and pulp • Corporate social responsibility projects • Joint ventures – pulp 	Big companies run schemes providing significant local livelihood benefits; scheme-management in part contracted out to NGOs; co-operatives and unions also established as alternatives to big company partners; and communities forming trusts to enter into joint ventures
India	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	<ul style="list-style-type: none"> • Farm forestry support – commodity wood and pulp • Farm forestry crop-share – pulp 	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

Country	Land tenure context	Types of schemes reviewed	Notable features
Indonesia	About 75% of land is classified as state forest and under government control though most is contested; otherwise smallholdings	<ul style="list-style-type: none"> ● Outgrower scheme – commodity wood ● Co-management for non-timber forest products and service contracting 	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
Papua New Guinea	97% of land is held under customary ownership – companies must negotiate with communities to operate logging concessions or plantations	<ul style="list-style-type: none"> ● Concessions leased from communities ● Potential joint ventures ● Contracts from communities – commodity wood and outgrower scheme 	Communities are able to register as companies but there are problems with accountability; novel legal mechanisms exist to foster forestry development on customary land
Ghana	Most land is under customary tenure – companies must reach government-sanctioned arrangements with local owners	<ul style="list-style-type: none"> ● Corporate social responsibility policy 	Workable system for participatory planning of company (and community) social responsibility built into tender process for logging permits
Canada	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	<ul style="list-style-type: none"> ● Joint ventures, cooperative business arrangements and forest services contracting 	Communities are able to register as companies; wide-ranging deals have allowed business diversification for both partners

South Africa: outgrower schemes with livelihood benefits

In South Africa, outgrower schemes involve some 12,000 smallholder tree growers on about 27,000 hectares 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, fertiliser and extension advice from companies who later buy the product for pulp. While outgrower timber only provides about 10% of the two companies' mill throughput, and is more expensive per tonne 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% 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 the most small-scale of 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% 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 due 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 privatised. 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 localised 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% 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 due to insufficient resources and the difficulty of achieving consensus among groups sometimes comprising many clans.



As the efforts by government and non-governmental organisations 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 as 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 due 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 forward

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 formalised external or intra-community 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 multi-purpose forest management, but also micro-scale 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* – whilst some partnerships have resulted in greater cohesion and organisation amongst 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 the elite, are more likely to run into difficulty
- *Organisation within communities* – even if contracts are with individuals, it may be worthwhile 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 materialise 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 collateralise) 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 over-complicated
- *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 organisations 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 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.

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 thirty 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.



Table 2 Improvement of partnerships over time: success factors and examples

Companies		
Success factor		Example
<ul style="list-style-type: none"> ● Staying abreast of the market – business innovation, paying market prices 	<ul style="list-style-type: none"> ● Several companies have moved into paying market prices for fibre in countries as far afield as India, Australia, Vanuatu, Guatemala, Portugal and Zimbabwe 	
<ul style="list-style-type: none"> ● Keeping ahead of legislation 	<ul style="list-style-type: none"> ● Companies going beyond basic social responsibility agreements have a business head-start, e.g. in Ghana and Honduras 	
<ul style="list-style-type: none"> ● Allowing sufficient time and resources to develop good working relations 	<ul style="list-style-type: none"> ● Long-term investment of staff time has paid off for companies in South Africa and Canada 	
<ul style="list-style-type: none"> ● Being alert to broader economic, political and environmental change 	<ul style="list-style-type: none"> ● Companies are setting up outgrowing schemes in Pacific nations in anticipation of plantations eclipsing natural forests 	
Communities		
Success factor		Example
<ul style="list-style-type: none"> ● Pro-active planning to pre-empt the company in design and organisation of key aspects of partnerships 	<ul style="list-style-type: none"> ● A village-level cooperative in Indonesia has negotiated a tourism contract on its own terms 	
<ul style="list-style-type: none"> ● Business know-how and legal advice 	<ul style="list-style-type: none"> ● South African outgrowers have benefited from legal advice to improve the terms of their contracts 	
<ul style="list-style-type: none"> ● Formation of a registered company 	<ul style="list-style-type: none"> ● Legal incorporation has paid off for communities in Canada and Papua New Guinea 	
<ul style="list-style-type: none"> ● Action in second best environments, in spite of risks 	<ul style="list-style-type: none"> ● Sometimes partnerships serve to secure shaky land rights, e.g. in Nicaragua and 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 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 maximise their options and seek support from outsiders, especially insurance and back-stopping.

Table 3 Five major challenges to company-community partnerships, with examples and some general ways forward

Partnership stumbles	Partnership innovates	Some general ways forward
<i>Complexity and transaction costs</i>		
<ul style="list-style-type: none"> ● Partnerships fail in Canada due to needs for high inputs of company staff and community time ● Difficulties of organisation among clans in Papua New Guinea hold back development of deals 	<ul style="list-style-type: none"> ● In South Africa, local grower and contractor groups achieve economies of scale while broader federations work for smallholders' interests ● Joint ventures in China involve government forest bureaus as brokers 	<ul style="list-style-type: none"> ● Company field staff with budget control, but working within core principles ● Community members form coalitions linked into local and national networks ● Small alliances to deal with immediate transaction costs ● Communities piggy-back on existing systems of collective organisation ● Use of local brokering agents
<i>Uncertainty and risks</i>		
<ul style="list-style-type: none"> ● Outgrowers in India, Thailand, Indonesia and South Africa drop out of deals when yields and prices do not meet expectations ● Asia Pulp and Paper forced to hold back huge outgrower scheme in China due to sudden change in government policy 	<ul style="list-style-type: none"> ● Land leasing for forestry in Georgia, USA, incorporates risk prediction and management measures ● Contracts between Smurfit and smallholders in Colombia protect each party's investment 	<ul style="list-style-type: none"> ● Schemes are introduced in phases with a learning cycle philosophy ● Both sides avoid becoming too dependent on a single commodity or single land use ● Early revenues from trimming trees, partial harvesting or intercropping ● Government provides stable incentives and buffers such as soft loans and tax breaks ● Insurance companies expand their services to small-scale fibre producers or producer associations
<i>Single versus mixed production systems</i>		
<ul style="list-style-type: none"> ● Some South African outgrower schemes insist on monocultures ● Campesino groups in Honduras are able to sell only well-known timber species 	<ul style="list-style-type: none"> ● Flexible fibre buying policy in India allows small-scale planting along contours and field boundaries ● Greater tree spacing in plantations in Indonesia gives more space for non-fibre crops 	<ul style="list-style-type: none"> ● Both sides consider forestry activities other than tree growing ● Farmers devote only part of their land, time and capital to partnership activities ● Companies maintain a diversity of sources of raw materials, and remain open to the advantages of intercropping

Partnership stumbles	Partnership innovates	Some general ways forward
Conflicts, mistakes and recourse		
<ul style="list-style-type: none"> • 550 court cases against Wimco in India by dissatisfied outgrowers • Squatting and violence in taungya schemes in Indonesia 	<ul style="list-style-type: none"> • Regional dispute resolution committees support corporate responsibility in Ghana • Special government office acts as firewall between investors and communities in Eastern Cape, South Africa 	<ul style="list-style-type: none"> • Contracts include conditions for arbitration, and a named arbitrator • Companies don't overstate predicted positive outcomes at outset of deal • Investment in developing good personal relationships • Where possible, partners develop a culture of shared learning • Small claims courts are used to settle disputes more efficiently
Limits to corporate responsibility		
<ul style="list-style-type: none"> • Logging companies in Papua New Guinea ignore retention of community benefits by elites • Boise Cascade in Mexico ignores protests from environmentalists 	<ul style="list-style-type: none"> • Buyers from campesino groups in Honduras sponsor certification to gain market edge • Prima Woods in Ghana set up agreement with local community long before legislated requirements 	<ul style="list-style-type: none"> • Effective legislation on investment rules, fiscal incentives and disclosure requirements to complement voluntary codes • Support for practical rules for alternative business structures • Alliances to foster equitable and effective small and medium scale enterprises • Promoting partnerships on their own merits rather than because a company needs to demonstrate social responsibility



External policies and institutions also present abiding obstacles. Regulations and bureaucracy can be opaque, over-complicated 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 realise 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 prioritise realistic steps to achieving policies and institutions more supportive to partnerships, backed up by appropriate legislation, for example in the fields of decentralisation, corporate scrutiny and fiscal incentives. Artificial financial environments, in which deals would fall away without funding, should be avoided. **Non-governmental organisations**, 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 organisations 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.



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Acronyms

ACI	Abitibi Consolidated Incorporated
ANM	Australian Newsprint Mills
APP	Asia Pulp and Paper
BAT	British American Tobacco
BILT	Ballarpur Industries Limited
BPL	Bhadrachalam Paperboards Limited
Can\$	Canadian dollars
CIFOR	Centre for International Forestry Research
CPA	Communal Property Association
CPPP	Community Public Private Partnership Programme
CSIR	Council for Scientific and Industrial Research, South Africa
DFID	Department for International Development, United Kingdom
DWAF	Department of Water Affairs and Forestry, South Africa
FAO	Food and Agriculture Organisation of the United Nations
FNFP	First Nation Forestry Program
FSC	Forest Stewardship Council
FTSE	Financial Times Stock Exchange index
ha	hectare
IIED	International Institute for Environment and Development
ILG	Incorporated Landowner Group
ILO	International Labour Organisation
ITC	originally Imperial Tobacco Company of India Limited
KZN	KwaZulu-Natal
LATIN	Lembaga Alam Tropika Indonesia (Indonesian Tropical Institute)
m ³	cubic metre
MADENSA	Maderas y Derivados de Nicaragua
MARENA	Ministerio del Ambiente y de Recursos Naturales, (Ministry of Environment and Natural Resources, Nicaragua)
NCT	Natal Cooperative Timbers
NGO	non-governmental organisation
NTFP	non-timber forest product
Picop	Paper Industries Corporation of the Philippines
PLC	Private Limited Company
PHBM	Pengelolaan Hutan Bersama Masyarakat (Managing the Forest with the Community Programme, Indonesia)
PMDH	Pembangunan Masyarakat Desa Hutan (Forest Village Community Development Programme, Indonesia)
PNG	Papua New Guinea
PPP	Public-private partnership
PT	Perseroan Terbatas (Limited Company, Indonesia)
R	Rand (South African currency)
Rp	Rupiah (Indonesian currency)
Rs	Rupee (Indian currency)
SAFCOL	South Africa Forestry Corporation Limited
SAWGU	South Africa Wattle Growers Union
SCIS	Sociedad Civil Impulsores Suchitecos
SRA	Social Responsibility Agreement
TUC	Timber Utilisation Contract
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US\$	United States dollars
Wimco	Western India Match Company
XIP	Xylo Indah Pratama

Introduction

Strong relationships between companies and communities – through informal arrangements, company social responsibility schemes, joint ventures and other contracts – are being promoted as partnerships by some in the forest sector. By fostering such partnerships, it is suggested, companies can secure forest product supplies with competitive cost structures and prices while enabling communities to develop skills and access credit, extension and markets related to growing, managing and processing forest products. What impacts are these company-community forestry partnerships having, and will they, or could they, be a major force for sustainable development? There is a relative paucity of development literature available to help answer these questions³.

“I choose my friends for their good looks, my acquaintances for their good characters, and my enemies for their good intellects.”

Oscar Wilde,
The Picture of Dorian Gray

1.1 Aim of this report

The aim of this report is to improve understanding of the conditions under which company-community forestry partnerships can contribute to improved local livelihoods and promote socially, environmentally and economically sustainable private sector forestry. The report brings together information from detailed country studies, several shorter case studies and a wide-ranging review of literature and information from contacts developed as part of IIED's collaborative research project: *Instruments for Sustainable Private Sector Forestry*.

Key questions about company-community forestry partnerships include:

- Why are company-community deals important – what are the problems or opportunities that they aim to address?

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



- Why do companies and communities enter these deals, or choose not to?
- What is the nature of these deals?
- What are the impacts – for the companies, for local livelihoods and for the wider public?
- How can conditions be improved to foster better outcomes within partnerships for companies, communities and forests?

This report addresses these questions by reviewing a wide range of detailed cases and examples developed from countries in the North and South. Key themes and trends are analysed and some lessons, proposals and remaining challenges are put forward. Annex A of this report describes the methodology developed for this review and the reasons why particular cases were selected for more detailed investigation.

1.2 Working definitions of some key terms

Before going any further it is important to provide some working definitions of what we mean – for the purposes of this report – by the four key words in the title: ‘company’, ‘community’, ‘forestry’ and ‘partnership’:

- **Companies** include large-scale corporations through to small-scale private enterprises – the key feature being that they are organised for making profit.
- **Communities** include farmers and individual local ‘actors’ as well as community-level units of social organisation such as farmers’ groups, product user groups and cooperatives. When community groups organise for profit, there is an overlap between the categories of ‘company’ and ‘community’ – and partnerships between external and community companies are one of the models discussed in this report.
- **Forestry** is the art of planting, tending and managing forests and trees for goods and services. It may be carried out in various forms of land use including dense forest, open woodlands, agroforestry, smallholder woodlots, and commercial scale plantations.
- **Partnerships** refer to the range of relationships and agreements that are actively entered into, on the expectation of benefit, by two or more parties. This report uses the term partnership to describe a very wide spectrum of deals, contracts and informal arrangements between companies and communities, which are mainly a means to share risk between the two parties, with third parties playing important supportive roles.
- **Company-community forestry partnerships** thus cover the range of partners, forms of forestry and types of relationship mentioned above. In terms of the forest *product* of such partnerships, this report is primarily focused on the growth and processing of *wood and wood-fibre*. Thus there is less attention given to partnerships that are organised solely for the development of non-wood forest products and forest services such as watershed protection or carbon



storage. However, some of the most interesting partnership types that are covered in this report produce wood *plus* some of these other forest products and services.

The notions implicit in these working definitions are subject to greater scrutiny later in this report, particularly in Chapter 2.

1.3 Structure of this report

The substance of this report is a set of six detailed case studies and a broad range of smaller profiles of partnerships from around the world. Following this introduction the report is structured around the above key questions in nine further chapters:

Chapter 2 discusses the contemporary contexts in which companies and communities find themselves, and the changing nature of forestry in a globalising world. The chapter goes on to describe the emergence of partnerships as a strongly promoted ‘good thing’ in development discourse and presents practical typologies of partnerships.

Chapters 3 to 8 describe detailed examples of partnerships in South Africa, India, Indonesia, Papua New Guinea, Ghana and Canada respectively. Each chapter charts the evolution and current strengths and weaknesses of partnerships in the country and addresses the key questions posed above.

Chapter 9 brings together the wide experience of company-community deals detailed in country case studies of Chapters 3 to 8 and the shorter case studies of Annex B (see below), to assess the overall trends, impacts, characteristics and challenges in partnerships.

Chapter 10 summarises the main lessons to be learned from experience to date and signposts some of the key ways forward for different participants in forestry partnerships, including companies, communities, governments, donors and other third parties.

A methodological overview is given in Annex A, and a range of short profiles of deals, schemes and joint ventures from a range of countries are included as Annex B. The key features from these profiles are drawn on in the analysis of Chapter 9 and the conclusions of Chapter 10.

1.4 List of partnerships studied in this review

In Table 1, the names of the 57 examples in 23 countries studied are listed under the *country* in which they are found, classified into different types of deals and given a reference to the chapter or box in which they are discussed. Box 33 onwards can be found in Annex B while the earlier boxes are in the appropriate country case study chapter. More details on the typology of deals can be found in Section 2.3.

Country	Type of Deal	Name of Deal	Ref – Chapter or Box
South** Africa	Outgrower schemes – pulp	Mondi – Khulanathi Sappi – Project Grow	Ch 3 Ch 3
	Outgrower scheme – NTFPs	South African Wattle Growers Union – Phezukomkhono	Ch 3
	Outgrower scheme – NTFPs and pulp	Natal Cooperative Timbers – small grower support for wattle bark and pulp	Ch 3
	Corporate social responsibility projects	Mondi, Sappi and SAFCOL	Ch 3
	Joint ventures – pulp	Ugie-North Eastern Cape Forests Umzimkulu-Mondi	Box 9 Box 10
	Forest environmental service agreement	Lambazi-Sappi Singisi Forests consortium Amatola Forests consortium Tsitsikamma Khoisan Village – tourism companies contracted by community	Ch 3 Box 11 Box 11 Box 12
India**	Farm forestry support – commodity wood	Western India Match Company, Uttar Pradesh (previous outgrower scheme)	Box 13
	Farm forestry support – pulp	ITC Bhadrachalam Paperboards Limited, Andhra Pradesh (previous outgrower scheme)	Box 14
	Farm forestry crop-share – pulp	Andhra Pradesh Paper Mills JK Corp Limited, Orissa Ballarpur Industries Limited, Orissa and Haryana	Ch 4 Box 15 Box 16
		Sirpur Paper Mills, Andhra Pradesh West Coast Paper Mills, Karnataka	Ch 4 Ch 4
Indonesia*	Outgrower scheme – commodity wood	Xylo Indah Pratama (Faber-Castell), South Sumatra	Ch 5
	Co-management for NTFPs and service contracting	PT Perhutani, West Java – taungya and ‘venture partners’ scheme	Ch 5
	Joint venture – timber	Stora Enso and Inhutani, West Kalimantan	Box 33
Papua New Guinea**	Concessions leased from communities	Makapa, Western Province Hawain, East Sepik Province	Box 24 Box 25
	Potential joint ventures	Forest Management Agreements	Ch 6
	Contracts from communities – commodity wood and outgrower scheme	Lease, lease-back system Nara/Gogol-Jant	Ch 6 Box 26

Ghana*	Corporate social responsibility legislation	Social responsibility agreements	Ch 7
	Farm forestry support – commodity wood	Pioneer Tobacco (with BAT), Brong Ahafo Region	Box 34
	Joint venture – timber Concessions leased from communities	Swiss Lumber Company Prima Woods, Brong Ahafo Region	Box 35 Box 36
Canada	Joint venture – timber Other joint ventures, cooperative business arrangements, forest services contracting, socio-economic partnerships and forest management planning	Babine First Nation-forest sector partnerships	Ch 8 Ch 8
	Joint venture – timber (forest tenant farming)	Lower St.Lawrence Model Forest Project	Box 37
Brazil**	Outgrower scheme – pulp	Aracruz Cellulose timber partner programme	Box 38
	Outgrower scheme – pulp, and group certification with company support for timber	Klabin farm forestry schemes and support for certification for groups to supply furniture makers	Box 39
China**	Joint venture – pulp	APP Guangdong Province – two city forestry companies and foreign investors	Box 40
	Buyer arrangements	Bamboo processing companies	Box 41
	Joint venture – pulp	Deqing County, Zhejiang province Plantation Forest Timber Products – three-province deal between foreign investors, banks and farmers	Box 42
Guatemala*	Concessions leased from communities	Sociedad Civil Impulsores Suchitecos	Box 43
Nicaragua*	Concessions leased from communities	Awas Tingni and MADENSA Tripartite community-government-company agreement to manage concession	Box 44
Honduras*	Group certification with company support	Campesino forestry groups and US timber buyers	Box 45
Mexico	Joint venture – timber	Boise Cascade and ejidos community groups, Guerrero	Box 46
Colombia	Land leased from farmers – pulp	Smurfit Carton de Columbia	Box 47

Zimbabwe	Outgrower schemes – timber Outgrower scheme – pulp	Border timbers Zimboard products	Box 48 Box 49
Philippines	Outgrower scheme – pulp	Paper Industries Corporation of the Philippines (Picop)	Box 50
Thailand	Outgrower scheme – pulp Outgrower scheme – pulp and chips	Advance Agro PLC Phoenix Pulp and Paper	Box 51 Box 52
Solomon Islands	Farm forestry support – commodity wood	Kolombangara Forest Products – informal sawlogs grower scheme	Box 53
Vanuatu	Outgrower scheme – commodity wood	Melcoffee Sawmill – sawlogs	Box 54
Australia	Land leased from farmers, cropshare and joint ventures Joint venture – pulp	Farm-forest joint ventures Australia Newsprint Mills various models	Box 55 Box 56
New Zealand	Land leased from farmers/communities – pulp	Tasman Forest Industries – lease of Maori land	Box 57
Portugal	Outgrower scheme – pulp	Soporcel-Emporsil scheme	Box 58
Ireland	Land leased from farmers – commodity wood	Coillte Forest Partnership scheme	Box 59
USA	Land lease contracts – timber Farm forestry and group certification with company support	Georgia – various contract forms between companies and landowners Westvaco Cooperative Forest Management – technical assistance to farm foresters	Box 60 Box 61

** Detailed field studies undertaken within the course of this project

* Case studies including field visits undertaken within the course of this project

The remaining deals are case studies derived from literature, experience of the authors and discussion with key informants

Why and how are partnerships emerging?

This chapter reviews the changing contexts that are bringing forestry partnerships between companies and communities to the fore. The chapter also examines different interpretations and possible typologies of partnerships.

“Let’s deal with the wood before the trees show up.”

Spike Milligan

2.1 What current contexts frame the emergence of forestry partnerships?

Connection and disconnection from the global economy

Globalisation is with us – there is no escaping it. Few livelihoods, urban or rural, remain isolated from the global economy. Investment, trade, technology, information and aspirations are all, to different extents, becoming more international. Globalisation has been portrayed as reinforcing differences between *‘the connected’* – globally competitive, doing well from global markets, capital flows and technology – and *‘the disconnected’* – affected but increasingly marginalised, with no credit, fragile entitlements, minimal income and education, and little opportunity to tap the economic benefits of globalisation. Between these extremes might be said to lie *‘the confused middle’* – some of whom are able to respond to global opportunity but this is patchy and unequal, while some are exploited as the connected win at the expense of others.

At the same time, as so many aspects of our lives become more connected with people elsewhere, pressure is building for more locally rooted decision-making to improve livelihoods. In the face of often increasingly distant decision-making that affects people’s lives, local efforts to claw back control of such decisions are growing. Proponents of forestry need to find appropriate forms of ‘localisation’ – control of key livelihood decisions at local level – such that improvements in livelihoods and sustainability of forest assets may be mutually supportive.

Perhaps the central governance challenge of the age is to reconcile, trade-off and attempt a balance between the potential benefits of globalisation and the increasing imperative for local control. Can partnerships between companies and local groups provide a key? Company-community partnerships are appealing as a potential means of incorporating ‘the disconnected’ and reducing insecurity in ‘the confused middle’ (Mayers *et al*, 2001a). This report investigates the substance, and the hubris, behind this appeal.



Changing tenure systems, economic opportunities and governance for communities

Worldwide, about 1.6 billion people rely heavily on forest resources for their livelihoods. The world's rapid pace of change alters the challenges facing poor people, but also provides new opportunities for improved livelihoods based on sustainable land use. For communities with forest resources, the greater access to markets, capital flows and technology conferred by a globalising economy can bring new difficulties as well as new opportunities.

On the one hand, there is increased opportunity for local groups to exploit their particular comparative advantages (Box 1) and to gain technology and market access, thus earning higher levels of income by producing a commodity that is compatible with their needs and aspirations. Forestry is an increasingly viable livelihood strategy for communities, as their rights over forest resources become better recognised and more extensive. Indeed, communities control a large and increasing share of the world's exploitable forest resources. A fourth of the global forest estate is now owned or controlled by indigenous and rural communities (White and Martin, 2001).

On the other hand, the global market creates pressure to produce forest products at the lowest possible cost, usually relying on simple blanket solutions and inadequate social and environmental investments. Some small enterprises are being driven out of business or being swallowed up by larger ones, and local success in forestry may be undermined by the demands of global capital markets. Rather than improving local livelihoods, interaction with the global market may lead to the loss of access to capital assets and opportunities, and increase local inequity, whilst transferring risk from corporations and governments to local people.

Except for some poorer, landless groups and forest-inhabiting indigenous peoples, communities are rarely *fully* dependent on forestry. At the local level, people fit forest goods and services into their lives in complex ways. The majority of users or producers of forest goods and services are rural and urban households who weave decisions about forest goods and services into their livelihoods alongside a whole range of other strategies linked to farming, itinerant employment and trading. As such their social organisation to pursue forest rights and resources has been weaker than it has for other social needs, for which there may be outside assistance, and their forest dependence has often been invisible to the state.

In developing countries, aid agencies and NGOs have supported 'social' and 'community' management of forests for both poverty alleviation and (in the absence of government capacity to manage forests) for environmental protection. The result is a growing expectation by many communities that they will be recognised as legitimate forest managers and will be given rights to forest, or have those rights returned where they were removed, often decades ago, by the state. As local people seek to re-claim forest resources from the

Box 1 Potential competitive business advantages of communities and local producers

- **Integration in local economies.** Compared with large companies, local forest producers are often characterised by high levels of trust and legitimacy in the eyes of the community (e.g. family businesses), and may employ local people in rural areas where there may be few other economic opportunities.
- **Proximity.** Tree growers and forest product enterprises located near centres of domestic demand, particularly inland cities far from commercial ports, may be competitive due to lower transport costs, their familiarity with local preferences, flexibility to supply small quantities to local traders, and fresh supplies of perishable NTFPs.
- **Lower opportunity costs.** Community-level producers may be able to supply forest products at a lower cost than large-scale or corporate suppliers because of lower land and labour opportunity costs, or because they value collateral benefits such as local employment, environmental services or local lifestyle.
- **Competitive labour.** Forest management by smallholders may be competitive due to the lower costs of resident owner-managers rather than hired labour for more management-intensive operations, or because of a less mobile labour force.
- **Joint production.** Smallholders can often produce tree products at a lower per unit cost than larger-scale producers, by producing wood together with crops and livestock on the same land. Small farm forests and woodlots can be grown on land that is otherwise unused or in low-productivity use, and can be managed and harvested during periods when labour demands for other activities are low.
- **Flexibility, adaptability and local knowledge.** Smallholders often possess major strengths in adapting to changing local circumstances (such as major price or political changes and environmental shocks). In areas where local people have been present for generations and actively use the forest, they often have site-specific knowledge that can enhance the quality or reduce the cost of forest management.
- **Long-term horizon.** Communities with strong territorial attachment may be competitive in good forestry because of long planning horizons, eagerness to avoid boom and bust cycles, and to enhance community assets for their children.
- **Lower risk.** Local people often have greater ability to protect forest resources from risks like encroachment, illegal harvest, fire and social unrest, because of their superior capacity for monitoring and community interest in forest protection. Insurance companies consider good local relations to be a critical factor in assessing forestry risk and insurability.
- **Branding.** Local producers may gain a marketing advantage by branding for specialty markets, or enabling social certification for consumers or investors sensitive to reputation or seeking to enter socially responsible market niches.

The potential to realise these advantages is challenged by a number of counter-acting forces. Barriers include: weak human capital and bargaining power, a propensity to benefit only local elites, limited access to information and money for resource-conserving technology and 'best' forest management, and unclear rights and responsibilities. Small-scale production may also suffer from disadvantages of scale, such as high labour to capital ratio, lack of specialist staff, low output, higher cost of credit and limited product diversification.

Source: Adapted from Scherr *et al*, 2002

state, new legislation authorising devolution is being adopted and implemented around the world. Proven new mechanisms for devolving forest rights to poor communities include: joint forest management agreements (e.g. India and Tanzania), village forest reserves (Ghana and Nicaragua), long-term concessions (Bolivia and Indonesia), household forestry leases (China and Vietnam), conditional handover consonant with government policy (Nepal and Philippines), and complete transfer (Mexico). These mechanisms vary in the security they offer poor people (FAO and DFID, 2001). Where tenure rights are clear they allow local people to protect forests against outside encroachment, to increase their local food and forest security, and to enter into business contracts.

Meanwhile there are more trees on farms, as households' access to natural forests declines. Historically, agroforestry developed most extensively where high population densities increased local subsistence demand for forest products and services, in areas with good growing conditions and natural forest scarcity. But in recent decades, in many places where farmers initially grew forest trees to provide for subsistence needs and local markets, farms now account for a growing share of commercial forest production. Relative to the often remote community-owned natural forests, farming areas can have commercial advantages, including superior access to infrastructure and markets, clearer property rights, higher land quality, management and monitoring capacity, access to labour, and farmer experience in intensive production and marketing.



A shifting business environment for forestry companies

An IIED review of 23 countries, North and South, showed that every country was privatising forest ownership, management and/or services provision (Landell-Mills and Ford, 1999). Most of the highest-yielding forests in the world today are now owned or leased by corporations, which have access to the genetic resources, technology and other inputs needed to achieve high yields. Most of these forests are devoted almost entirely to one or a few species for wood production, with no other goods having as high a priority. Those companies whose business model favours a longer-term view are moving towards plantations – or highly intensively managed forests with plantation-like characteristics, in the subtropics in particular (Bass, 2001).

Asset-stripping companies can still thrive in countries with weak governmental and civil society controls. These companies are principally interested in underpriced, high-value resources, such as natural forests with good timber supplies. Most of the 5.9 million hectares of tropical forest logged annually during the late 1980s were harvested by the private sector. Stock markets, which value listed companies on a daily basis, still place a higher premium on companies that can secure such assets at the lowest cost (which means those with lowest social and environmental provisions). Nevertheless, logging of natural forests is becoming less significant globally.

With demand rising (3-5% per year for paper products), production for export is increasing. So also is domestic consumption in many developing countries –

for good reasons, such as paper for health care, education and communications. Forest products already form the third largest category in international trade. The ten largest companies produce 40% of global turnover of all forest products and perhaps 50 companies control over 140 million ha of the world's forests, through ownership and leases. Whilst forestry is not yet the most globalised sector, mergers and buyouts are on the increase. North American and Scandinavian companies dominate (exploiting market power and comparative advantages), but South East Asian companies are also being forced to merge and spread operations internationally. Over 90% of industrial wood production comes from 600 million ha (a fifth of global forest area) in just 25 countries, the biggest five being USA, Canada, China, Brazil and Russia. Processing is more concentrated, with half the annual wood harvest being processed by 50 companies, the top three all being North American.

As they get bigger, large companies are increasingly vulnerable to changes in demand. For example, the European forest industry is highly susceptible to downturns in the construction industry. The global pulp industry similarly suffers boom-bust cycles resulting in part from the huge size of every new pulp mill, which substantially increases the quantities of pulp available with consequent price reductions. Under these conditions, integrated firms are under pressure to develop new wood-based products and materials, both to provide outlets for surpluses and to make greater efficiencies in times of relative raw material shortage (Bass, 2001).

A globalising forest industry can present opportunities for the South. Many developing countries have land that is better suited to forestry than to farming, producing some of the world's highest tree growth rates. Much of this land may not be fully utilised at present; and there may be potentials for farming/plantation mixes. Foreign companies may have considerable strength to raise capital and, if they would employ the best technology and management skills, could exploit considerable comparative advantage to make long-term investments in forestry. They may also be best placed to access markets – and notably markets which demand environmental and social benefits through forestry production – and to weather periods of low commodity prices.

Some of the leading forest industry companies are beginning to respond to pressures for 'corporate social responsibility'. Until recently the social responsibility of a major forestry company ended with its formal obligation to pay royalties and taxes and perhaps to compensate local populations for negative social impacts like loss of access to forests or damages to crops. Commonly, this meant cash compensation for lost assets, a few jobs and perhaps the construction of community institutions such as schools and health clinics. Even this level of return for communities remains beyond reach in some places. Yet in some other places, companies are changing faster. *"Today the demand from some quarters is for companies to be part of a 'smarter' type of social investment, one that reflects the complex relationship between mitigating negative social impact and promoting community development"* (Warner, 2000).

A few big companies are paying more attention not only to investors and customers, but also to enhancing the company's relations with a wider group of stakeholders. Such changes in patterns of corporate governance are beginning to encourage investigation of partnerships with communities. The growth in philanthropy and sponsorship in certain areas of business provide another push in the partnerships direction. Such philanthropy often increases when a company is facing tighter regulation or is being criticised for socially irresponsible behaviour. The question then arises, are partnerships enhancing corporate public image, irrespective of whether the companies merit a good reputation? We return to this question in Chapter 9.

Forestry itself is changing

The state of the world's forests is also changing. Natural forests are declining worldwide and global climate changes are likely to bring further drastic changes in forests and agricultural systems. Whilst blocks of forests are decreasing, forest goods and services are today derived from a wide spectrum of land use types: simple plantations/intensively-managed forests, complex natural forests with 'wild' characteristics, set aside for non-consumptive purposes, natural forests and woodlands managed for multiple 'livelihood' purposes, and small farm landscapes with trees. More emphasis is being placed on the environmental service functions of forests, such as carbon sequestration and watershed protection. Meanwhile, as noted above, goods like fibre are now being increasingly produced in intensive plantation or mixed forest-farm landscapes.

Plantations are relatively low-cost, low-risk, and high-yield and with a uniform and predictable product, which can be used for a wide range of finished goods, thanks to recent technological developments. Plantations currently provide 20% of wood, and will provide 50-75% by 2050 according to FAO predictions (FAO, 2001). They will increasingly, be the only economically- and socially-acceptable source of wood. But natural forests will remain important for specialist woods, such as fine-grained hardwoods for which there is no real substitute, as well as for certain non-timber forest products such as wild medicines.

The markets to which forestry responds are also changing. Environmental niche markets for forest products are growing quite big in some regions – Europe and North America in particular. Social niche markets in forest products, however, remain small. These markets are increasingly shaped by 'soft law', such as certification, which is backed by civil society groupings and is having considerable policy and institutional impact (Bass *et al*, 2001). Product chain-of-custody information is also becoming increasingly important as buyers, manufacturers and producers attempt to send signals through the supply chain about market demands and sustainability.

All these contextual changes might trigger forestry partnerships

From the foregoing discussion, various factors begin to emerge which might push or pull business and community protagonists to work together. The

following points can be considered hypotheses about the conditions under which companies and communities might pursue partnerships in forestry rather than going it alone, striking conventional business deals or working through exploitative relationships. They are subsequently examined through the case studies in this report.

Companies may aim for partnerships with communities when there are:

- *Public pressures to behave well* – intolerance of irresponsible corporate behaviour and demands to demonstrate social responsibility are growing in many countries
- *Discriminating markets* – social and environmental concerns created by certification, fair trade or standards-based stock exchanges (e.g. the Green Dow-Jones and the FTSE For Good)
- *Imposed requirements* – such as government contractual requirements to service low-income communities, national or international investment conditions, standards and practices favouring links with communities
- *Land and resource access and security advantages* – there may be access restrictions or ceilings on the wood sources and land that companies can themselves control – these may be avoided, and resource security and diversity of sources of supply increased, through partnerships with local land and resource owners
- *Cost advantages that the community can provide* – through motivated labour, land and resource management, knowledge of local conditions, and efficient informal institutions
- *Local risks that the community can help minimise or take on themselves* – such as tenurial and land-use conflict, the destruction or unauthorised use of company property, violence against company employees, locally supported interference from local politicians, and price fluctuations that can be passed on to communities
- *Collective goods that only the community as a whole can provide* – such as communal forest resources and the support of community institutions

Partnerships may be pursued by companies when one or more of these trigger factors is strong – but only if the many potential restraining factors against partnerships are also outweighed. These may include: poor infrastructure and high transport costs relative to gains, excessive red tape, weak regulatory regimes – allowing irresponsible business to ignore communities, and lack of socially astute staff. Companies may perceive high levels of inter- or intra-community conflict, weak local institutions and high transaction costs. Where markets are weak or depressed there will be little enthusiasm for bold ventures

with communities, and the gearing and strategy of companies may be towards products and markets that do not favour deals. Many companies these days are consolidating – focusing on ‘core competencies’ – and sub-contracting key functions to those with little incentive to work with communities.

Communities may aim for partnerships with companies when there are:

- *Secure land tenure and tree rights* – or, conversely, a lack of legal or bureaucratic permissions to develop land and trees without company help
- *Potential for higher net returns from land and labour than alternatives would provide* – in terms of regular income and /or reduced market risk through assured sales or capital accumulation
- *Decreasing opportunities from the public sector* – declining subsidies, privatisation of plantations, fewer centrally planned interventions
- *Desirable technologies or services that only companies can provide* – e.g. capital intensive forestry technology, infrastructure, social services or political clout
- *Institutions capable of representing the interests of the community to the company* – well developed grass-roots organisations, community orientated non-governmental organisations, accountable local governments
- *Markets to which the community has limited access* – international timber markets
- *Scientific knowledge that the company can provide* – e.g. characteristics of alternative tree species

Of course there may also be strong reasons why we do not see more communities putting all their energy into developing partnerships with companies. Weaknesses of governance that bedevil companies may also hamper communities: weak legal back-up for local tenure, bureaucracy, conflicting regulations or policy signals. Within and between local groups there may well be considerable conflict. A history of bad relationships with forestry authorities and mistrust of companies is not uncommon, and local bargaining power is often weak relative to companies. Smallholders and local groups may also avoid forestry because of perceptions of insufficient knowledge and technology on tree growing and forest management. The long timeframes involved in tree-growing – separating the benefits from the costs – and sometimes the seasonality and product diversity clashes between farming and forestry, may also be disincentives.

It should be noted that all the above factors, pushing and pulling companies and communities towards or away from partnerships with each other, are not static – they can change, and *be* changed. The existence of supporting conditions is necessary but not sufficient for partnerships to emerge. Skills, finance,

information, participation mechanisms and good management are all needed to explore, build and maintain partnerships. We return to some conclusions on the elements of successful functioning of partnerships in Chapter 9.

2.2 Emerging forms of partnership

What relationships count as partnerships?

In common usage, ‘partnership’ implies a close relationship of equals, who carry out a large proportion of their activities in cooperation with each other within a framework of balanced power. The upshot of the use of the word partnership to describe agreements between companies and communities is that they tend to be seen as an inherently ‘good thing’. This has led to a proliferation of arrangements that are termed partnerships and are touted as solutions to some fundamental governance problems among the private sector, governments and civil society around the world (see next section).

Normative characterisations of partnerships tend to incorporate both the *closeness* of the relationship – the extent to which the partners work together – and the *equity* of the relationship – how power is balanced between them. For example, one such definition sees partnerships as alliances in which individuals, groups or organisations agree to: work together on specific tasks, share the risks as well as the benefits, review the relationship periodically and revise the agreement as necessary (adapted from Tennyson, 1998). This report uses the term partnership less in a normative sense, but rather as an umbrella term for a wide range of deals between companies and communities. The fact remains that some of these deals are better able than others to deliver expected outcomes to various stakeholders. An important objective of the report is to identify the characteristics associated with partnerships that have the ability or potential to bring benefits to forests, enterprise and livelihoods. One task is therefore to look at whether successful deals do tend towards strong partnerships in terms of the various features of closeness and equity (Box 2) and whether close working relationships necessarily make for equity of power, or vice versa.

Box 2 Some features of strong partnerships

- **Dialogue** – parties agree to consult with each other during the preparation of plans
- **Informed consent** – parties agree not to proceed with an action without prior consent of the other party, on the basis that each fully understands the implications of the proposed action
- **Contract** – parties agree that one party provides services under contract to another
- **Shared workplan** – parties agree to independently implement a set of tasks that together with the tasks of the other part builds towards a common goal
- **Shared responsibility and risks** – parties agree to share the overall responsibility for implementing tasks, and to be jointly accountable

These features can be used as lenses for analysis – the degree to which a given deal or relationship exhibits these features can tell us much about its quality and strength.

label can be attached to almost any interaction. Of course, not all desired relationships between organisations constitute what can usefully be called partnerships. Also, changes in relationships towards or away from a model of strong partnership might be just as much an advantage as a disadvantage for either partner. Some relationships may never become partnerships – but may still be found useful by both parties:

“Nobody will disagree that ‘partnerships’ are a good idea – but this agreement in itself will not change players’ relationships overnight. Indeed, some argue that working in partnership is a deeply unnatural form of behaviour. The word can imply ‘business partners’ and/or the more difficult ‘partners as equals’. Taking the notion of a business partnership beyond its origin in the private sector, and using it to mean a relationship which allows the business at hand to be dealt with, it begins to make more sense. Partnerships may start as small catalytic actions by a couple of people or partner organisations, demonstrating something tangible and attracting others to join the action” (Mayers et al, 2001a).

Partnerships are spreading like wild fire, at least in rhetoric

Several forms of organisational relationship have grown and been accorded, with considerable fanfare, the status of partnership over the last decade or so. It is not always clear whether this dramatic growth represents practical mechanisms taking root or just flowery language. Some of the main forms of emerging partnerships are outlined below. Their promise is already tempered by scepticism from some quarters (Box 3).



Public-private partnerships – a catch-all tag covering arrangements for engaging commercial companies in long-term relationships with the government sector – are being promoted where governments see them as a means to deliver services to the public whilst corporations pursue them as business opportunities. They are thought to have merits in leveraging resources, accommodating broader perspectives in problem solving and facilitating information exchange. But they also have their problems:

“The UK’s public-private partnerships programme grew from the government’s Private Finance Initiative, launched in 1992, under which contractors were brought in to build and manage projects such as roads and hospitals. More than 400 deals have now been struck, involving some £100bn (\$144bn) in committed expenditure by government departments. According to a recent report by the National Audit Office, which reports to parliament on how well taxpayers’ money is spent, 81 per cent of public bodies rated their experience as satisfactory or better than under standard public-funded schemes... But some PPPs have flopped. Indeed, just when the UK can boast newly developed expertise in PPPs – and other countries from Germany to Mexico are keen to learn from the British example – how embarrassing that the concept should be in such

bad odour... In its biggest and most controversial PPP project to date – a complicated blueprint to modernise London’s subway system, the Tube – the government is preparing for a possible retreat. Bob Kiley, London’s transport commissioner, calls the plan a ‘radical, dangerous and prohibitively expensive experiment, using the core of the capital’s infrastructure as a guinea-pig’. He has most Londoners on his side” (White, 2002).

Business-civil society partnerships – sometimes referred to as ‘strategic partnerships’ – are being widely promoted by such agencies as the UNDP and the World Bank:

“Strategic partnerships go beyond philanthropic partnerships. A partnership is thought to be strategic when it involves the core business or programme activities of both partners – a win-win relationship based on mutual gain to the partners in areas of their strategic interests. It combines complementary strengths such as the productive capacity of business and the social organising capacity of civil society” (Ashman, 2001).

Tri-sector partnerships between major corporations, government agencies and civil society organisations are being heavily promoted by initiatives such as the International Business Leaders Forum and Business Partners for Development. They claim to bring together the driving forces of corporate social responsibility and civil society rights-based approaches with a focused set of enabling and leveraging actions from the public sector:

“Tri-sector partnership is a management tool to deliver business and development outcomes through maximizing the effectiveness of each partner’s skills and resources. Complementary core competencies of government, corporations and civil society are pooled to match needs and provide win-win outcomes. The mix cannot be fully designed, it needs to be negotiated” (Warner, 2001).

Partnerships involving just about everybody. In some countries, South Africa amongst them, there are national partnerships initiatives that aim to involve just about everybody:

“The Community Public Private Partnership Programme seeks to revitalise depressed rural economies through the linking of resource-rich communities with relevant state and private investors interested in the sustainable utilisation of natural assets. Areas of focus include the agroforestry, agro-biodiversity, aquaculture, mining and tourism sectors. The promotion of an attractive environment for the development of commercial joint ventures is core to the Programme’s activities.” (CPPP, 2001).

Whilst a general call for everyone concerned or interested in an issue to work together might be considered utopian, at least in some contexts these multi-sectoral arrangements seem to have an effective focus and considerable motivation. However, the usefulness of partnerships as a practical proposition is generally diluted the greater the number of budding partners who are expected to throw their hats into the ring.

Company-community partnerships. Relationships between companies and communities are the focus of this report. In a few sectors there are high profile, well analysed, arrangements of this sort and, like the other forms of partnership noted above, they are an increasingly common feature in both the North and South. But in other sectors, forestry included, many of these deals are low profile, little analysed and unsung. There are no grand multi-institutional initiatives on company-community forestry partnerships yet. Thus, whilst our discussion may draw on some of the conceptual and analytical work done on public-private, business-civil society, and tri-sector partnerships, much of the ground being covered is new. As we shall see, however, the role of third parties in company-community partnerships is often crucial – the two partners often rely on key actions being taken by others. So there is common ground between company-community and other forms of partnership, and much potentially to be learned from exchange of experience.

Box 3 Partnerships under fire – critiques of neo-liberal orthodoxy

The currently prevailing discourses on partnerships presented in Section 2.2 can be considered a logical product of neo-liberal orthodoxy. After 10 or 15 years of neo-liberal policy governance in most countries around the world, several trends have converged to prompt attention within civil society to the idea of collaboration with business. The prevailing neo-liberal view suggests that there are certain policies that are necessary to establish market confidence in any particular economy and its government: balanced budgets, moderate taxes, light regulation, privatisation – and ‘partnership’ with business. Voluntary initiatives such as partnerships have become the preferred way of encouraging business to act responsibly.

But some question whether voluntary initiatives are attempting to replace rather than complement regulation. Other critics note the tendency to promote partnerships with others as a way of avoiding doing anything yourself – in this perspective, ‘partnerships’ are just a thinly-veiled means of sub-contracting others to do the work for which you used to be responsible. Others worry about the ‘social sanitising’ effect of bringing previously mistrusted players into partnership arrangements – giving a ‘social license to operate’ that may be undeserved.

Of the development agencies, UNDP in particular has made partnerships its central watchword. The rationale seems clear enough – partnerships can yield various benefits in terms of resource mobilisation and the promotion of certain values and forms of governance. But there is also a downside to such partnerships. As one observer notes *“UN institutions appear to be paying insufficient attention to certain risks with partnerships, including conflicts of interest, self-censorship [of those who would otherwise criticise companies], the poor choice of partners, and the tarnishing of the UN’s reputation”* (Utting, 2000).

Even *The Economist* magazine – which is a keen supporter of the neo-liberal worldview – has worries. “Governments have used the supposed demands of globalisation to deny responsibility for doing much more than tinkering within fairly tight parameters... There is much hiding behind the pretence that policies are dictated by global markets rather than elected governments and a belief that global capital will no longer tolerate public ownership of utilities and governments running up big budget deficits. In reality, the global capital market makes it easier to run up deficits because there is a much larger pool of funds to tap. And, as for public ownership, many investors may see advantages in it – notably government guarantees of the debt... But if you tell people often enough that you are helpless, they will start to believe you” (The Economist, 2001).

The pivotal roles of third parties

External stakeholders are also often involved in arrangements between companies and communities. Indeed the importance of intermediary actors – those with links to both parties - is often crucial. Certainly it is of limited value to think of company-community partnerships without consideration of the multi-stakeholder context in which they operate. Other stakeholders may include:

- **Central government** – likely to have a vital role in providing the governance framework, installing policy and influencing the markets that stimulate or constrain partnerships. Government agencies may see partnerships as a low-cost means to develop forestry, improve local incomes, and avoid problems of ‘giving too much’ to the private sector.
- **Local government** – is often even more critical than central government in developing democratic governance frameworks that can set the local terms within which partnerships can operate. With the common trend towards decentralised budgets and local policy formulation, new mechanisms are needed to strengthen the capacity of local governments to deliver improved public services in line with growing local expectations. Some local governments see company-community (or tri-sector) partnerships having a facilitating role to play in this area, and are playing an active part in organising and monitoring them.
- **Forest officers** – may be involved in brokering, mediating and monitoring partnerships or may become effectively marginalised through direct dealings between companies and communities.
- **Federations/associations** of farmers or other community level actors – may be the direct partner with companies who have limited capacity to deal with many individuals, or may play a vital role in negotiating deals on behalf of individuals. Many company-farmer arrangements fail to achieve true ‘partnership’ status because of a lack of such bargaining power on the part of farmers.

- **NGOs** – may have considerable skills to broker partnerships, which are unavailable to other parties. Some are also active in questioning whether current corporate models – based on revenue, employment and social safeguards - will ever be able to deliver more than skewed local economies, triggers for corruption and unsustainable community dependency. They may thus be interested in partnerships as alternatives to prevailing corporate practice. Sometimes NGOs have the indirect blessing or direct financial support of companies, governments or donor agencies in this.
- **Development agencies** – are becoming interested in the role that company-community partnerships might play in improving local livelihoods. Some donor agencies see considerable potential in supporting conditions under which companies can become better catalysts for local business development (e.g. small and medium-scale enterprises and more players in procurement supply chains) and for development of public goods and infrastructure.
- **Banks** – may provide a vital ingredient in overcoming the problem of the long time scales involved in tree-growing – loans to cover establishment and maintenance costs against the future ability of companies or community groups to repay. However, it is often difficult for individual farmers to secure such loans.
- **Labour groups** – may be separately constituted parties in joint ventures. For example, in South Africa a range of new land-holding joint ventures between investment partners, land-holding communities and labour groups have emerged in the agricultural sector and are in the early stages of development in the forestry sector as government privatises some forest assets to such ventures.
- **Certification bodies** – audit the performance of companies in meeting social as well as environmental and economic criteria. Social criteria are often the sternest test of sustainability in forestry operations.

In some contexts almost all of the above groups are explicitly involved in forestry business alliances, for example the forestry consortia formed to bid for management control of the packages of South African plantation assets transferred in that country's privatisation process (see Chapter 3). In general though, each case of company-community partnership seems to depend on at least one or other third party. The extent to which these third parties *should* and *can* be involved is taken up in the case studies and analysis that follows this chapter.

2.3 Typologies of company-community forestry deals

In thinking about relationships between companies and communities it is useful to spread the net wide – North-South, big-small, formal-informal – to learn lessons from a wide variety of initiatives and to enhance the possibilities of insights jumping from one case to another to improve practice. To navigate the wide range of deals, some sort of categorisation of types of deal is needed. Here we present typologies based on forest *products* (Table 2) and the *partners* (Table 3) in a deal. Later chapters use the terminology of these tables to distinguish among different types of deals. However, they are not used as a stringent framework for analysis because in all classifications divisions are arbitrary and sometimes awkward – some deals and partners fit in more than one category, others barely seem to fit at all. It should also be noted that the nature of partners, deals and partnerships change over time – what appears to be a tidy classification today is unlikely to remain so for long.

Another way in which partnerships could be categorised is by their primary *purpose*. Purposes, or functions, of partnerships may be rather different to their product – for example the obvious product of a partnership may be wood but the purpose for entering into a partnership for the company may be to foster a good public image, while the purpose for a group of farmers may be to generate cash. The problem with categorisation by purpose is therefore the diversity of purposes perceived by the different parties.

Table 2 Typology of company-community forestry deals – by main forest product

PRODUCT	TYPE OF DEAL
High-quality timber	<p>Joint venture – timber Forest communities manage timber in partnership with private company</p> <p>Concessions leased from communities Forest communities lease concessions to private industry, communities retain substantial control</p> <p>Outgrower schemes – timber Small farms or communities participate in outgrower or crop share schemes with private companies to establish plantings of improved high-value timber</p> <p>Corporate social responsibility project Company contributions to local development in return for access or ‘social license to operate’</p>
Industrial pulpwood	<p>Outgrower schemes – pulp Industry assists farmers to establish and manage pulpwood plantings, in guaranteed supply contracts</p> <p>Farm forestry support – pulp Farmers establish plantings with technical support from industry, and sell output without purchase contracts</p> <p>Farm forestry crop-share – pulp Plantings established on farmer’s land with support from industry, and crop profits shared</p> <p>Joint ventures – pulp Communities and companies share equity in pulpwood production venture</p> <p>Land leased from farmers/communities Forest owners lease to private companies for pulpwood production</p> <p>Corporate social responsibility project Company contributions to local development</p>
Commodity wood	<p>Outgrower scheme/farm forestry support – commodity wood Schemes that directly link producers with commodity wholesalers or final users</p> <p>Contracts from communities – commodity wood Contracts or agreements for wood-using or logging companies to harvest wood from community forests</p>
Certified wood	<p>Group/community certification with company support Forest communities or farm producer organisations with contracts or agreements with certified wood buyers or intermediaries to market products</p>
Non-timber forest products*	<p>Co-management for NTFPs Communities manage/benefit from NTFPs in company-controlled areas producing wood or pulp</p> <p>Outgrower scheme – NTFPs Small-scale farmers grow and sell NTFPs through out-grower schemes with private industry</p>

Forest product processing	Community processing or farmer out-processing Community or farmer cooperative sawmill, for markets in which large-scale, high efficiency mills do not compete
Environmental services**	Forest environmental service agreements Payments and other benefits to communities or farmer groups from municipalities, companies or conservation agencies, to provide forest environmental services such as biodiversity conservation, watershed protection, carbon storage and landscape amenity

Source: adapted from Scherr *et al*, 2002

* This review is focused on deals that produce primarily wood or wood fibre. NTFP deals are only included where they *also* produce wood or wood fibre. Many further examples and cases of company-community deals primarily for NTFPs are thus not covered. Investigation of these deals would be a valuable complement to this review.

** Arrangements primarily for forest environmental services are not covered in this report. They are the subject of an international review by Landell-Mills and Porras (2002) – a companion volume to this report.

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

Source: Adapted from Mayers, 2000

South Africa: Outgrower schemes with livelihood benefits

The forest industry in South Africa is highly focused on a plantation resource of some 1.5 million hectares. Only more recently have policy developments placed more attention on the country's 23 million hectares of natural woodlands, which provide local people with a wide range of forest goods and services. The scope for further plantations is strictly limited by recent regulations on water use, and some existing plantations are seen to be stretching the boundaries of acceptable land use under new policy developments. Some plantations have been developed on land that was expropriated from its previous users and may be at risk in the land reform and restitution processes underway.

In this section we consider how various arrangements between companies and individuals or communities in forestry are faring in the new context in which South Africa finds itself. Most detail is presented on contracts between large timber companies and small-scale outgrowers, which have been evolving in South Africa since the early 1980s. Other types of deals include more recent initiatives that seek to create a mutually beneficial relationship between a company and a whole community as the partner entity, and the more 'traditional' corporate social responsibility investments made by companies in their areas of operation. The chapter draws heavily on the work of Cairns (2000) and Zingel (2000), and also on that of Andrew *et al* (2000), Ojwang (2001) and Sisitka (2000). These studies were carried out in the collaborative research effort to identify promising instruments for sustainable private sector forestry in South Africa, previously reported on by Mayers *et al* (2001b).

"If there is no business case for good corporate behaviour – then I am not interested."

General Manager,
trans-national pulp and paper
company based in South Africa

3.1 Outgrower schemes

Key features

In outgrower schemes a company provides marketing and production services to farmers to grow trees on their own land under purchasing agreements laid out in a contract. The South African outgrower schemes are in KwaZulu-Natal. The two main schemes are run by Sappi and Mondi, the two largest timber companies in South Africa. We also draw on the experience of two other small-scale grower support initiatives run by the South African Wattle Growers Union and Natal Cooperative Timbers.



Estimates of the numbers of individual small-holders involved in some sort of tree-growing scheme with company support range from 11,300 to 14,800 with a total area of land planted from 25,500 to 37,800 ha. The variations in these estimates stem from differences in definition of who can be said to be involved in a scheme – as opposed to those farmers who grow trees independently (there are many more such independents).

The Sappi and Mondi outgrower schemes are based on the system of contract farming. Growers are provided with physical inputs, loans and extension for the establishment and maintenance of small eucalyptus woodlots. In return they expect the harvest from all trees after a growing cycle of six years on the coast and seven years inland. Key features of the outgrower schemes are presented in Table 4.

Feature/Statistic	Mondi – Khulanathi	Sappi – Project Grow⁴
Objective	Company business venture	Company social responsibility programme
Products to mill	Eucalyptus fibre to Richards Bay mill	Eucalyptus fibre to Mandini (Sappi) and Umkomaas (Lima) mills
Year started	1988	1983 (Lima started 1989)
Number of growers	2,854	7,134 (3,134 + 4,000 Lima)
Average plot size (Ha)	1.5	2.7 (0.8 Lima)
Hectares	5,904	9,031 + 2,996 Lima = 12,027
Volumes (tonnes /year)	40,000	56,000 (9,000 + 17,000 Lima)
% Mill throughput	3.2%	3% (1.5% Lima)
Features of Contract	Company encourages use of small contractors. High input levels – high fertiliser and use of clones. Use best sites. Company has removed clause on rights to coppice. Company markets scheme aggressively	Company encourages use of household labour Lower input levels - low fertiliser, seedlings Use steeper slopes Company retains rights to coppice Company promotes through word of mouth
Loans/Credit	Loans with 10% (simple) interest on loan	Smaller loans (than Mondi) with no interest

4. The SAPPI scheme is administered by a contract extension agent (Lima) on the Natal South Coast. Lima is a non-governmental rural development organisation.

Feature/Statistic	South African Wattle Growers Union – Phezukomkhono	Natal Cooperative Timbers
Grower representation	Outgrower associations for administrative purposes only – little leverage with company	Outgrower associations for administrative purposes only – little leverage with company
Objective	Union members support scheme	Cooperative members support scheme
Products to mill	Wattle bark for tannin extract factories in KZN midlands	Wattle bark in midlands and eucalyptus fibre on coast of KZN
Year started	1993	1994 (when formalised – origins in 1970s)
Number of growers	600 members (out of 2801 total small grower members) in scheme	52 share owning (A Class), 700 ordinary (N-class) members in scheme
Average plot size (Ha)	7.5	5.3 to 10.6
Hectares	4,500 ha	4,000-8,000 ha
Volumes (tonnes /year)	Not known	Not known
% Mill throughput	5% of bark	Not known
Features of contract	Contract provides inputs for establishment of wattle plantations -fencing wire, seed, fertiliser	Attempt to find highest prices for members Support co-operative development and depot construction to meet A-class requirements (sustainable volumes)
Loans/Credit	Inputs provided at 8.5% interest. Loan includes group life and fire insurance	R100,000 loan for all small grower members
Grower representation	Small growers have 15% representation on executive bodies of SAWGU via 18 committees. Gives shares in tannin extract factories to growers	A-class members have preferential allocations, bonus prices and representative rights in NCT shareholder meetings

Company motives for initiating outgrower schemes

Sappi managers note that the company initiated *Project Grow* as a social responsibility programme (see Section 3.3), whilst Mondi managers state that *Khulanathi* was started as a business venture. This initial difference in emphasis seems to explain some of the differing features of the schemes noted in Table 4. However, accessing land close to the pulp mills has clearly been a major rationale for both schemes. This land falls under communal tenure and was previously inaccessible to purchase or lease agreements. The need for this land should be seen in the light of the worldwide demand for soluble pulp in the 1980s, combined with tensions with the sugar industry over land in KwaZulu-Natal. Furthermore, most communally owned areas in the coastal zone have a very high potential for forestry, with mean annual increments of 25-30 m³/ha/annum.

The costs of administering the schemes per tonne of fibre produced appear to be higher than those incurred per tonne from commercial plantations, although these costs (at least in Mondi's case) are covered by an unspecified higher margin from the timber sourced from the schemes. Since land rental must also be paid on commercial plantations it is likely that considerable savings are being made from the schemes.

Furthermore, the outgrower system generates the additional fibre supply needed for maximising economies of scale.

“The outgrower scheme gives us the last 10% of the fibre we need, which is much more economically important than the first 10% – because it allows the huge economies of scale to kick in”

Two other motivational factors can be noted on the company side. Firstly, the schemes should be seen within broader objectives to contract out forestry operations. Secondly, the schemes present a progressive image of the companies and may provide some political benefits. Company managers have learnt a lot from operating the schemes, and during interviews have drawn attention to several pointers for running these kinds of arrangements effectively (Box 4).

Sappi manager,
Pietermartizburg, 1999

Through different origins, the South African Wattle Growers Union (SAWGU) and Natal Cooperative Timbers (NCT) initiatives have reached somewhat similar positions. Although SAWGU already had 1900 smallholder members by 1994, the union's efforts to integrate small-scale farmers were stepped up in response to the Government of National Unity's Reconstruction and Development Programme (RDP) launched in that year. NCT also formed at this time. The programmes have formalised relationships by providing small farmers with representation at executive levels. Benefits to the companies are probably more political than economic, yet small growers do contribute significant volumes (about 5%) of wattle bark and timber.

Box 4 Lessons learned by companies from outgrower schemes in South Africa

The following lessons were noted by operational level company managers in this study:

- Strong field staff giving sound technical advice are crucial
- Good administration saves money
- Intercropping with legumes in first two years gives growers income in early stages and improves soil fertility
- Consolidate rather than spread too thinly across areas – transport costs and other costs are prohibitive if volumes per area are too low
- Strong relationships with growers are vital – especially after the third year when money for weeding ceases, when firebreaks must be maintained and trees should not be felled early
- Transparency is essential – e.g. allocation systems must be explained in terms of world supply, reasons for cutbacks must be understood by all concerned
- Management needs change over time – in the early years it is focused on silvicultural extension, later on managing timber supply e.g. quota systems, contractors' availability and pricing
- Reputation rather than heavy marketing spreads the word

Household motives for joining outgrower schemes

Quantitative studies by Cairns (2000) of households in the areas where small grower timber schemes are operating revealed some incentives and disincentives for joining the schemes. The major incentive (80 – 90% of respondents) was to obtain cash income at harvest – trees are seen as a form of savings (some respondents mentioned that trees are better than cattle in this regard). More minor incentives (up to 5% of respondents) included:

- To obtain the annual payments
- To obtain fuel and sell wood to neighbours
- To secure their rights over unutilised land. Increasing security of tenure is a particular motivation for widows whose rights to land become insecure after the death of their husbands.
- Ease of management compared with food crops
- Reliability of yield
- Persuaded by an extension officer or neighbours
- Land was not suitable for other crops

The major barrier (80 – 90% of respondents) to joining the schemes was inadequate household landholdings. Minor disincentives (up to 5% of respondents) included:

- People wanted to see the real profits from trees before they committed themselves
- The long growing cycle
- Fear of cattle damage
- Preference for other crops (sugar, vegetables, fruit trees)
- Lack of household labour (too busy with other crops or too old to plant)
- Fear of jealousy among neighbours
- Concern for what would happen to the market if the timber companies no longer needed trees

- Suspicion of timber companies' motives (stealing land)
- Concern about the inability to change once trees are established

There have been independent small growers since the early 1960s, in areas of high potential, close to the mills. This indicates that small growers can operate with little or no financial or technical support from timber companies, and that small grower production would not necessarily collapse if the schemes were withdrawn.

Box 5 An outgrower's story

Mrs M's husband was interested in planting trees ever since he worked on a farm in Vryheid. He started picking up seedlings and planting around the home long before the Sappi scheme, but in a very haphazard way. He died in 1973. The Sappi forester introduced the scheme at a Tribal Authority meeting and Mrs M introduced herself to him at a school meeting. She joined to try to earn money for her family as they had no other source of income. The Sappi forester emphasised that they should not use land where they plant food. They should use steep areas only. Mrs M was the first to plant in the Ingodweni area. She started an association of six other women. They had to get forms signed by the Inkosi and he agreed on condition that they plant on their own properties only. Their association boomed. Only women were allowed to join because they do not trust men with money. Her first planting was 25,000 plants and the second was 37,000 plants (about 3 ha in all). They believe that many contractors are dishonest. Truck drivers are generally suspected of off-loading small-grower timber on the way to the depot. The association planned to get their own transport for their timber, but violence in 1993 disturbed their plans. Mrs M's house was burnt down in 1996 along with six others. This may have been because of jealousy (she has bought all her furniture, a stove and a fridge from profits), but there is also a long-standing faction fight in the area. Her son has battled to get a job. "I bought him a chain saw and he is harvesting for other people right now".

(Project Grow member in Ingodweni area)

Source: Adapted from Cairns, 2000

Farmers who join the NCT co-operative structure may benefit from higher returns as the co-operative attempts to find the highest prices for its members' product. NCT also tries to cushion the price drop to members in times of oversupply on the world market. These more recent moves by NCT represent significant competition to the deals available to growers in the longer established Sappi and Mondi schemes. Support for small grower cooperative action may also have wider developmental benefits. However, these advantages may be eroded by relatively poor production support (skills training and credit advances) and marketing support (harvest and transport), which impacts on net profits achieved by the growers.

Grower and non-grower characteristics

Even highly vulnerable, marginal households join the outgrower schemes – since advance payments allow labour deficient and very poor households to use small scale planting and weeding contractors. The exception is those households who

do not have sufficient land holdings. These households may comprise youth who have moved away from their parents' smallholdings, or newcomers to an area. The schemes may have a highly detrimental effect on these households since they effectively lock up previously unutilised land for an indefinite time. Table 5 outlines the results of an interview survey on sources of livelihood amongst those who join the schemes.

Box 6 An independent grower's story

Mrs K moved to the Mbonambi area in 1949 to get married. In 1955 people living in her area were threatened by government officials with forced removal allegedly to stabilise dune encroachment from the nearby Richards Bay coastline. "This was just a trick to move us as we knew nothing about this beach sand or of planting trees". The K family gained permission from the Tribal Authority to contest the removal and eventually an agreement was reached that community members could stay if they planted trees in the area. The family was taught to plant trees by a local farmer who had previously worked on white-owned farms. By the early 1960s it was time to harvest the trees but no-one knew where to take them. The only mill at that time was the Sappi mill at Mandini. They were surprised to find their trees were valuable.

Problems only started after Mr K died in 1981. Mrs K is now a pensioner and her daughters are unemployed and receive no maintenance income. Most of the money comes from trees. The family does all operations (planting, weeding, felling, stacking and marking) unless their chainsaw is broken. Mrs K also buys other peoples forests from time to time and takes charge of transporting them to the depot. She is considering joining one of the small grower schemes because there are rumours that the local weighbridge will stop taking non-contracted timber. (*Independent grower, Mbonambi*)

Source: Adapted from Cairns, 2000

Households in all wealth categories join the schemes as growers. On the other hand, weeding and firebreak contractors and chainsaw operators appear to come from highly vulnerable households, while the transport contractors interviewed all had formal wage earners in their households.

How outgrower schemes work

Growers join and participate in the Sappi and Mondi schemes through the following steps:

- A farmer approaches an extension forester to request to join. The forester accompanies the farmer to see if the site is suitable in terms of geographic location, soil, rainfall, slope, size and conservation status. Initially, Mondi set a lower limit of 1,000 spots (tree plantings), which meant the site must be at least 0.6 hectares. By 1992, Mondi had lowered this figure to 500 spots.
- Each farmer must have the approval of the local traditional authorities before any work can take place, to ensure that farmers do not plant on land allocated to other households. The local government Agricultural Officer is also notified.

Table 5 Sources of livelihood of those who join the schemes (interview sample = 31)

Type of livelihood source	Marginal sources	Vulnerable sources	Semi-vulnerable sources	Reliable sources	
	Agriculture or non-farm petty commodity	Unreliable remittance +agriculture	Pension or state welfare + agriculture	Two or more vulnerable sources + agriculture	Wage labour or reliable remittance
Contracted growers	4	3	5	1	5
Non-contracted growers	0	1	1	1	1
Weeding and firebreak	2	0	0	0	0
Chainsaw contractors	3	0	1	0	0
Transport contractors	0	0	0	0	3
Percentage total	34%	14%	24%	7%	28%

Notes to table: Where there is a mix of sources of income or where the main income is derived from formal wage employment (25% of households in KwaZulu-Natal), livelihoods are less vulnerable. However, many households rely solely on welfare payments (7%) or unreliable remittances (12%) for income. Even more vulnerable are those who have no access to formal sector opportunities, or state welfare and rely solely on agriculture and non-farm petty commodity production (about 1%).

Source: Cairns, 2000

- Application is then made to Department of Water Affairs and Forestry (DWAF) for permission to plant. Blanket community permits based on quaternary catchment information have recently been approved.
- The forester then explains the operations that need to be done on each particular site and the correct timing for each operation.
- A contract is then signed by the grower and the company. The contract makes provision for an advance to be paid by the company to the grower after he or she successfully completes each operation. In the Mondi scheme the grower is free to keep this money, hire local people to do the work, or have the company arrange for a local contractor. Sappi discourages the use of planting contractors.
- Normally, growers only carry out a subset of operations, which includes marking, ploughing, pitting, planting, fertilising, weeding and fire protection.
- The money paid out to the grower for each operation is essentially a loan advanced against the value of the final product. The grower may also take an additional annual advance against the final value of the crop. Sappi provides interest free loans, Mondi charges 10% simple interest. Amounts advanced are deducted from the final payment, made out to the grower at the time of harvest. The companies provide extension free of charge and fertiliser and

other chemicals at bulk cost price. Sappi provides free seedlings. Mondi promotes the use of clones. These are considerably more expensive, but Mondi believes that the cost is justified through the growth rates that can be achieved.

Distribution of risk

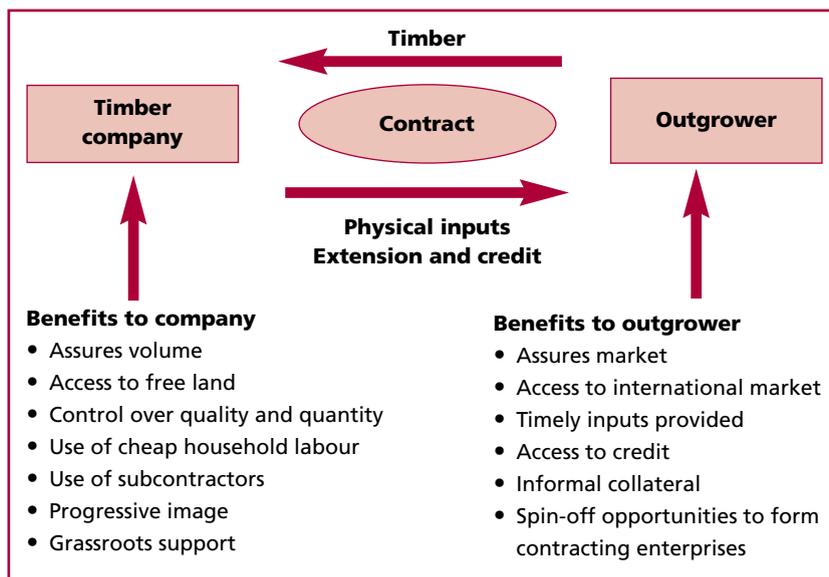
Outgrowing can be seen as a way of allocating risk between the grower – who takes the risk of production – and the company – which takes the risk of marketing. The relationship between the two parties is defined by the contract. Box 7 shows how the outgrower contracts work.

In effect companies do take on some of the risks of production since they do not act against loan defaulters. Mondi probably takes somewhat more risk than Sappi because it encourages higher levels of inputs and advances larger loans per hectare. Growers' risks may be measured in terms of the opportunity costs of their land and labour. The SAWGU case shows that where terms have been negotiated with strong associations, growers place great emphasis on protecting their investments (fencing, fire and life insurance and provision to pay back early), and prefer to reduce the burden of interest on loans as soon as possible. However, in overall terms small growers still produce less than 5% of the KwaZulu-Natal pulp mills' throughput, and grower associations are as yet weak. The balance of power is evidently still in favour of the companies.

Economic returns and livelihood impacts for the outgrower

Small woodlots on virgin ground using clonal varieties produce equivalent and sometimes even better returns than the industrial plantations, since the proportional effect of edge trees – which capture more light, heat and nutrient –

Box 7 How Sappi and Mondi outgrowing contracts work



Source: adapted from Cairns 2000

is more significant than in the blanket planting regimes. However, small average sizes of land tend to militate against full time enterprises centred on outgrower forestry. Table 6 illustrates the direct financial returns for a household participating in an outgrower scheme (in this case Project Grow).

The averages in Table 6 mask great variation. Some growers fell too early in order to obtain cash when needed for urgent situations or when they become alarmed at the build up of interest. Management practices – site preparation, weeding, fire and stock protection, felling at the correct time – vary considerably among growers, significantly affecting yields and net profits. Some growers have been encouraged to plant in areas with insufficient access roads and now face high costs for short haulage. Other growers have been given assistance by the company in arranging contractors at reasonable rates, which significantly improves net profits.

Table 6 Average household financial returns from outgrowing (Sappi Project Grow)			
Yield (Sappi average)	133 ton/ha	Indirect Costs	
Local depot price	R140/t	Tractor water	R418
Harvest & short haulage	R45/t	Clones	R450
		Fertiliser	R144
Establishment costs 1 st yr			<u>R1012</u>
Direct Costs		Maintenance costs 2 nd yr	
Ploughing	R562	Hoe rows	R81
Mark Pit	R22	Advance	R73
Planting	R53	Fire protection	R55
Blanking	R43		<u>R209</u>
Manual water	R33	Maintenance costs 3-5 th yr	
Weeding (x2)	R81	Fire protection	R55
Advance	R74	Advance	R73
Fertilising	R36		<u>R128</u>
Fire protection	R55	Interest over 6 years	
	<u>R959</u>	10% p.a. (simple)	R1415
Calculation of net profit			Per Hectare
Gross profit (Yield x Depot price)			R18 620
Less average costs incurred			
Establishment costs (direct and indirect)			R1971
2 nd year costs			R209
3 rd -5 th year costs			R128
Interest			R1415
Harvest & Short haulage (Contractor costs x 108t)			R5985
Net profit (over 6 years)			R8912
			(US\$800)

Source: Cairns, 2000

With a national 'abject poverty line' calculated at R750 per month (about US\$ 70) it is estimated that the outgrower schemes contribute, under average management, from 12% to 45% of the income needed for a household to remain just above this line (with the average figures listed in Table 6 the figure for one hectare is 17%). The schemes cannot alone take households out of poverty because access to land in communal areas is limited. The livelihoods of outgrower households remain vulnerable, even if production risks are not also taken into account.

Box 8 Khulanathi 'Grower of the Year 1996'

The Z family has lived in the Port Durnford area for many years. In 1992 two brothers of Mrs Z planted woodlots under the Khulanathi scheme. She told her husband about the scheme. Her husband went to see the forester at Esikhaweni who explained the terms of contract. It was easy for them to understand the system because they had grown sugar cane for many years. In 1993 her husband planted 2.1 ha. A local tractor was hired from a sugar farmer by Mondi to prepare the soil (R2,000 to plough and disk for 2 ha). The husband originally employed his wife, 3 daughters and neighbour's wife to weed the woodlot and paid them R10 per day (just under US\$1) to work in the land. His daughters later refused to work, since they wanted to be paid directly by Mondi. In 1996 they were awarded Khulanathi Best Grower of the region for the quality of their woodlot and firebreaks.

After her husband's death the forest was registered in Mrs Z's name. She feared that her husband's family would take back a portion of her land. In order to strengthen her claim on the land she planted two new woodlots of 0.8 hectare each in 1997. The first forest (2.1 ha) was harvested in 1999. The total income from the forest was R52,483 (Mondi records) from 40 truck loads (372 tonnes). The Mondi loan repayment was R5,185 and the contractor cost was about R15,600 to fell and take the load to the depot (R42/tonne to fell, stack, mark, and transport about 15 km). She was paid R141 per tonne at the weighbridge. She therefore cleared R32,000 as profit (US\$2,850). (*Khulanathi grower, Port Durnford*)

Source: Adapted from Cairns, 2000

Competition with food crops for land or labour does not appear prevalent, as yet, because trees are generally planted on land unsuitable for food crops and operations are carried out at times in the year when agricultural activities are minimal. This situation may change as households increase the area under trees. However, the schemes do pose an opportunity cost for *potential* high-value cash crops, considering in particular the costs of destumping. But as long as the enabling policies and support systems for such crops with comparative advantage remain unrealised in KwaZulu-Natal, then so does this opportunity cost. In any case, such comparative advantages of crops are difficult to assess in small farm systems.

There is evidence that outgrower woodlots have depleted water sources in some areas. In addition to the direct impact on the natural asset base, this raises labour demands as women must walk further each day to fetch water.

Furthermore, contrary to what might be expected, the schemes do not significantly improve fuel wood availability.

Household management of the returns at harvesting is diverse, with the contract holder usually investing in essentials such as school fees, buildings, building improvements and marriage payments or paying off or purchasing vehicles. Use is made of early harvesting, at say four years, to meet short term cash needs, and the original planting material and coppice material may at times be sold in local markets for building poles. These can get saturated.

Most household heads who have formal jobs remain in migrant wage labour or commute. Some growers manage a range of enterprises from a base in forestry outgrowing, and many expand into contracting or sharecropping, entering into informal lease agreements for the management of the stands and coppice with generally weaker households who cannot cope. Where holdings are very small, households struggle to realise any real returns, and some are thus beginning to hand their stands to the sharecroppers, so that they are at least guaranteed an agreed return. More entrepreneurial individuals have accumulated rights to develop up to 100ha in this manner.

Amongst some outgrowers there is dissatisfaction with being tied to supplying a single timber industry client. This is evident in the increase in those selling to the higher prices paid by NCT. The fact that there are independent growers in high-potential areas, close to the mills, shows that small growers can operate without support from companies. There is some evidence that outgrowers would like the freedom to supply whomsoever they wish once the basic debts to the companies are honoured. After the first rotation some outgrowers can use their accumulated capital to finance the next rotation and then identify their own customers. This represents a change in risk that may be in the growers' interests to accommodate.



Wider developmental impact of outgrower schemes

The acid test of initiatives designed to provide local development benefits (and we must bear in mind that Sappi and Mondi make few claims about their schemes in terms of local empowerment) is whether spin-off development initiatives emerge, run by local people. There are a few, and these spin-off opportunities appear to be maximised in areas administered by Lima (labour-based access roads, agricultural depots and contractor development). This may be the major advantage of outsourcing administration to a professional rural development organisation.

Emergence of contractors servicing outgrowers

In comparison with the sugar industry, the timber industry has not yet provided major impetus for development of the necessary skills and capital accumulation for large numbers of small scale contracting enterprises. However, various types of contractor are crucial to outgrower schemes in KwaZulu-Natal:

- *Planting and weeding contractors* are drawn from very poor households and are paid low wages (R20-R25/day, equivalent to about US\$2). There are perhaps 60 planting and weeding contractors, in six groups. They allow labour deficient households (where adult members are pensioners, or migrant workers) to participate in the schemes as advance payments to growers cover the set rates charged by these contractors.
- *Chainsaw operators* may earn more (R35/day). Some, possibly former employees in forestry, have progressed to form labour teams. These operators may earn R6,000 (US\$530) per month above expenses if there is sufficient work. There are perhaps 70 chainsaw operators currently.
- *Transport operators* organised by Sappi and Mondi charge reasonable rates to growers, but allegedly struggle to make a profit. Transport contractors have emerged mainly from local business and the sugar industry. There are about 40 short haulage transporters operating among small growers. In addition, Sappi uses four small-scale long haulage transporters.

Interviews with contractors highlight the need for business skills training in particular.

Credit and infrastructure development

Approximately R1.2 million (just over US\$100,000) in loans is made available by the companies each year under the schemes – they are thus significant providers of credit in the areas where they operate. The schemes have also provided some infrastructure in the form of depots. These depots have become places for growers to meet contractors and foresters. The timber industry has been less successful than the sugar industry in raising government money for access roads.

Land conflict and emerging elites

Various interest groups within communities may compete with timber growers for land. The two major parties are *pastoralists* whose grazing land is depleted (this land may have been previously allocated to grower households but used communally) and *youth* who fear that unutilised land for future households is rapidly disappearing. Conflict has occurred in particular within communities where Tribal Authorities have allocated large tracts of land for forestry. Issues of ownership and responsibility and distribution of profits have been added to the above land use conflicts. While Tribal Authorities do generally act to prevent acquisition of large holdings, an elite group of timber growers can develop through astute use of the mechanisms of land allocation, purchase and sharecropping.

Impacts on gender relations

More than half the growers in the schemes are women. But all the company extension officers and foresters are men. This is likely to have hindered

communication and skewed understanding of the specific dynamics and problems related to gender relations. It appears that the schemes cannot assist women to access new land but they are used successfully by female-headed households to secure existing rights over land use. The woodlots have not particularly locked women into cash crop activities. Married women have lower decision making powers over their labour and benefits gained from the schemes. Households often share profits in a responsible manner, however, despite the companies' efforts to register forests in the name of the appropriate person there is little that protects women in abusive relationships. Most gender tensions within grower households seem to be attributable more to unequal power relations legitimised by society than to the schemes themselves.

Comparison of timber and sugar cane outgrowers

Comparisons with the other major 'outgrower' model in the region – small-scale sugar cane production – is useful. Levels of development, support, output and organisation of small-scale sugar cane provide important insights for better forestry outgrowing. Some key contrasts and structural issues are noted in Table 7.

"I go for gum, my husband was interested in sugar, therefore we have both but when we look at our income I always laugh at him"

Project Grow member, Ngodweni

Key features	Small-scale sugar production	Timber outgrowing
Historical investment	Considerable investment in small milling 1940-1955 and state promotion of a producer class. Integration into protected 'white' industry in 1970s with strong state support. Rapid and dramatic grower uptake under these frameworks of support.	Early state support for planting for timber, conservation and erosion control. 1930s shift to restrictions on expanding peasantry, introduction of central plantations in reserves and wage labour. Some state planting support in 1960s-1970s. Grower uptake patchy.
Current support structure	Centralised industry sourcing and management of credit. Millers as agents and extension service providers. Guaranteed markets and high industry tariff protection, with preferential prices for large-scale (white) growers. Strong state support (legacy of apartheid KwaZulu government) for roads and extension.	Company sourcing and management of credit and limited extension. No state extension, infrastructure or technology transfer support. Single buyers linked to company contracts. Recent diversification of market options and prices (e.g. NCT). No tariff protection or price support.

Numbers of growers, areas and production involved	About 45,000 small growers on 60,000 ha producing 4.1 million tonnes = 13% of total cane throughput and 23% of total land	About 13,000 small growers on 31,000 ha producing 100,000 tonnes = 3 – 5% of total fibre throughput and 4% of land
Credit, production and profits	Contract farming system – advances for annual tasks, deducted from milling proceeds. Retention scheme added. Subsidised interest. Yields 41 tonnes/ha/annum average against industry average of 71 tonnes. Average annual returns R560 (range R6,900 irrigated to R258), about US\$50	Similar. No retention schemes. 10% simple interest, or no interest. Yields: 22 tonnes MAI against industrial average of 25 tonnes. Average annual returns R1,485 (US\$130)
Institutional development	Strong. Funded trust supports local association development, integrated into mill cane committee structure. Strong central representation at central level. No equity participation.	Minimal or weak in outgrower schemes. Some local downstream. Well integrated at central and local levels in SAWGU and NCT. Equity in both.
Trends	Reduction in tariff protection. Low cost SADC producer/price competition. Industry expansion to Africa. Divestment and land reform on company estates – reduces risk and gearing. Deregulation of small producers and withdrawal of some company support. Increased small-grower vulnerability	Commodity cycle peaks and troughs being managed for outgrowers. Early stages of divestment in estates. Outgrowers well located for opportunities in agri-business, supported land reform, and privatisation of state assets. Outgrowers vulnerable to company policy changes.

Source: Adapted from Zingel, 2000

Changing structural conditions in the sugar industry, combined with deregulation, may have significant effects on the sustainability in small-scale production. Many of the larger producers close to the processing plants are considering shifts into timber production, where long-term returns and a reduced investment in labour are attractive given the future regime of reducing tariffs.

3.2 Community-based deals

Deals for tree-growing between companies and community groups, through instruments such as joint ventures, are newer to South Africa and far less expansive in terms of area covered than outgrower schemes.

Community-based forestry deals have focused on the Eastern Cape, where potential for new forestry is greatest. Here, the expansion of the small-grower approach has so far proven impractical since most areas are under communitarian tenure regimes. Yet parts of government, some NGOs and some communities see great potential here – the rural areas of the Eastern Cape badly need development opportunities and forestry may be in a better position than most to provide one.

Box 9 Ugie-North Eastern Cape Forests joint venture

The North East Cape Forests (NECF) initiative is instructive of the potential for community-based deals. NECF comprises Anglo-American, de Beers, IDC and Mondi. The company bought 100,000 ha from large farmers for planting up in conjunction with developing a processing facility in the Eastern Cape. This land turned out to be poorly suited, and only 35,000 ha were planted. The project was converted into three community schemes with a view to making up some of the shortfall. Developing mechanisms for the creation and management of viable Communal Property Associations (CPAs) was a key feature. CPAs are legal mechanisms for communities to own land. The process of developing the CPA defines the grouping that represents the community. Some of the CPAs constituted have more than 200 members, others only about ten.

The CPAs had the responsibility of mediating in the project, including taking precautionary measures to prevent damage or use of trees not sanctioned by the agreement, and to oversee the creation of other community subcommittees. Whilst NECF bore the financial risks, the community was also exposed to certain risks. Some of the land earmarked for afforestation was previously used for grazing and risks of dissent and opposition from livestock owners and other previous individual users were real.

The CPAs involved held an equity stake based on the value of their land earmarked for afforestation. The land value stood at 20% of the input costs while the remaining 80% was the private consortium's contribution. The NECF consortium recognised that the community's stake was quite low and needed to be increased if empowerment goals were to be realised. Hence NECF explored other funding opportunities that could increase benefit flows to the communities.

Planting started in one of the three schemes. CPAs contributed land and labour, and both parties were responsible for protection. However, a drop in the market price for pulp and wider company decisions to halt plans for more mills led to the project being mothballed.

Sources: Sisitka, 2000; Andrew *et al*, 2000; Ojwang, 2001

However, there are some major disincentives for companies in developing community-based deals in the Eastern Cape. These include some of the general challenges posed by the underdevelopment of much of the region: poor roads and huge transport distances (60% of the market price for wood fibre produced in the Eastern Cape is transport cost) and little primary industry. In this context the existing forestry companies' enthusiasm for partnership approaches blows hot and cold depending on internal strategic decision-making related to company gearing, wider markets and the international pulp price. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships may be slow to get off the ground.

Companies currently find it easier, legally and operationally, to make dealings with individual outgrowers than with broader, organised community groupings. In part this is because such organised communities are thin on the ground. Many rural areas of South Africa are typified by rather weak levels of community cohesion. Complications arise from the fact that sharing a common resource does not in itself make for an harmonious and homogeneous community. Various smaller groups with differing interests such as women and youth groups may be more individually cohesive than the 'community' as a whole.

Box 10 Umzimkulu-Mondi joint venture

In this joint commercial venture Mondi and several communities in Umzimkulu each have a share or equity stake in the company commensurate with the value of their contribution. Each party shares in the ownership, proceeds and liabilities of the company. Mondi contributes extension, start-up capital and technical assistance for tree-growing, and also takes most of the risk in terms of purchasing, processing and marketing the produce. Consequently, the community stake is relatively small – in the region of 10%.

Mondi encouraged communities to form CPAs (see Box 9) and to use their Settlement and Land Acquisition Grants to buy land appropriated from white farmers. Settlement and Land Acquisition Grants are worth R16,000 (US\$1,400) per qualifying person and can be used for purchasing equipment or any land for sale. It is the larger of several grants available to people in South Africa's land redistribution programme. Mondi is currently in the process of handing over the initiative to a managing agency.

Sources: Sisitka, 2000; Andrew *et al*, 2000

A further obstacle for companies dealing with community groups is the relatively low levels of capacity within companies to understand social dynamics in a detailed sense. Companies are reluctant to pay for the transaction costs involved in building community capacity to a degree where the company feels assured that it is involved in a relationship with a willing, motivated and knowledgeable partner. Thus, the private sector perceives considerable risk in deals with local communities.

Box 11 Company-community deals linked to privatisation of state forest assets in the Eastern Cape

The process of restructuring state forests in the Eastern Cape is encouraging the development of a combination of partnerships, particularly the combination of leases and equity sharing arrangements. This is because the government has required that companies wanting to lease state forests must have a 10% black economic empowerment stake in their companies. Consequently, the preferred bidders have made 10% (and sometimes more) of their shares available to legal entities representing communities neighbouring the forests, and also to workers' trusts. Two examples follow:

Singisi Forests. The Hans Merensky Corporation has set up a joint commercial forestry venture with equity stakes in the company commensurate with the value of partner contributions, as follows:

- Hans Merensky Corporation 51%
- East Cape Development Corporation 10%
- Black Empowerment Trust / Eastern Cape entrepreneurs 14%
- Singalanga Community Development Trust 10%
- Employees (Hans Merensky & DWAF/SAFCOL) 9%
- National Empowerment Fund 6%

This consortium has been selected as the preferred bidder for the government's privatisation of a package of some 57,000 ha of forests in the Kokstad and Umtata regions. Hans Merensky Corporation contributes capital, expertise and physical assets and takes most of the risk in terms of purchasing, processing and marketing produce. Planning at community level is still in the early stages.

Amatola Forests. As in the Singisi case, the preferred bidder for DWAF's sell-off of forests in the Amatola and Katberg mountains is a consortium. This involves two private forestry and saw milling companies, whilst the communities neighbouring the forests and the workers involved in the companies are represented by Trusts. The community and worker stakes in the venture amount to 30% and the workers have used their Settlement and Land Acquisition Grants to buy into the company. This consortium has indicated that it will sub-contract certain operations to local small-scale entrepreneurs. However, negotiations have been suspended because of outstanding debts.

Sources: Sisitka, 2000; Andrew *et al*, 2000; Bethlehem, 2001

Environmental concerns pose a challenge to the potential for forestry partnerships in the Eastern Cape. Conversion of relatively unproductive, degraded communal lands to forestry could generate new livelihoods and at the same time protect the soil from erosion if the right species are planted on the right soil types. However, if deals involving afforestation proceed without full consideration of the environmental risks, potential negative impacts include:

- Increased grazing pressure and degradation on the areas of remaining lands
- Spread of invasive alien vegetation – with consequent loss of productive land
- Lowering of water tables and stream flow if afforestation management is poor and/or if aliens species spread
- Reduced biodiversity if afforestation management is poor and/or if aliens species spread

Box 12 Tsitsikamma Khoisan Village: community deal with several companies

Tsitsikamma Forest Trust, situated on the eastern bank of the Bloukrans River, was established as the legal land holding entity for 29 ha of land transferred from the state to the community in 1997. The entity is constituted in the form of a Section 21 Company. This is an association, not for gain, limited by guarantee, under the Companies Act. The trust has entered into partnerships with three separate private and public/private organisations: Bloukrans Bungy, Eastern Cape Tourism Board and South African National Parks. Community members have contributed land and buildings. Tourism development focuses on promoting awareness of the local indigenous cultures (Khoi/San) including accommodation, craft production and selling, a museum and bungy jumping.

Sources: Sisitka, 2000; Andrew *et al*, 2000

Furthermore, where Eastern Cape communities are making a reasonable profit by clearing invasive wattle from waterways under the government's Working for Water scheme, there is some concern that this source of fuelwood and fibre is not being replaced with a long-term sustainable alternative. This may lead to further pressure on the remaining native vegetation, with consequent degradation and erosion.

Most of the company-community deals described above are either shelved, facing difficulties or are still in their fairly early stages of development. Thus the overall momentum for such deals is fragile, and their patchy history means that lessons drawn should be treated with some caution. Nevertheless, tentative lessons will be useful over the next few years as community demands for development in the Eastern Cape, as well as companies' desires for more fibre and other business opportunities, continue to rise.

3.3. Corporate social responsibility investments

Apart from the outgrower schemes, and the more recent development of forestry deals with whole communities, the major forestry companies in South Africa have for years sponsored a wide variety of small projects designed to improve conditions and relations with communities in or neighbouring forest areas or industry. Indeed, the major companies have served as the dominant social and development service providers in some areas. For example, the industry federation Forestry South Africa estimates that there are some 15,000 pupils in schools funded by the industry. Projects and schemes run by Mondi, Sappi and SAFCOL include:

- Grazing schemes – under eucalyptus in Zululand for example, Panicum grasses thrive and can support considerable use for grazing
- Managed access for hunting and harvesting thatch, building materials, mushrooms and medicinal plants
- Intercropping groundnut schemes and vegetable gardens
- Schools and literacy classes

- Clinics and creches
- Recreation and tourism management – hiking, biking, camping, fishing, rafting
- Wood and stone ornamental carving markets
- Sewing machines and classes for women’s group

These projects are usually run by the company’s human resources department or ‘community liaison section’ whilst the majority of the company personnel have little link with them. In some other cases, such as those in the fast-growing forest-linked tourism sector, these projects exercise considerable company finance and personnel. SAFCOL has made a major investment in a joint venture with local communities and local labour at Lebanon farms in the Western Cape. Here it has been recognised that fruit and wine production is a more viable land use than the forestry that had been subsidised for years on the land, and SAFCOL has spent R5 million (nearly US\$450,000) developing the fruit and wine joint venture as an ‘empowerment exercise’.

In other areas social spending can be seen as an essential tool for companies to manage social risk and be able to maintain their forestry activity. One company manager said “*we have to work with communities, they hold us to ransom*” with threats of fire and sabotage. In some areas considerable efforts are needed to manage conflicts over access and grazing in plantations. In other areas the companies have acknowledged that some original inhabitants of the land have strong rights to the land and have agreed to undertake ‘voluntary withdrawal’ – and handover – of certain plantation areas.

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

Potential for company-farmer arrangements to support farmer production of raw material for the forest industry in India would seem to be high. In part this is because policy and law effectively prevents the private sector from raising its own raw material. The provisions of the Forest (Conservation) Act (1980) and the National Forest Policy (1988) effectively prevent a direct role of the corporate private sector on government's legally classified 'forest lands', which cover 97% of the forest area. Outside government forest lands there are restrictions presented by statutory ceilings on the amount of agricultural land that can be held by individual owners. Thus, the creation of large-scale private plantations on either forest or non-forest lands is currently almost impossible.

"Honest disagreement is often a sign of good progress."

Mahatma Gandhi

4.1 Emergence of competitive markets in farm forestry

A further catalyst to development of links between companies and farmers is provided by changes in forest policy and trade policy, which signal that the days of protected markets and subsidised supplies of raw material from government forests are numbered. Companies have thus begun to innovate in an evolving, highly competitive environment. Several companies have taken steps to encourage tree planting by farmers, and some have sought to enter into different types of partnerships with them.

Case studies of four companies were undertaken by Saigal and Kashyap (2001): Wimco Limited, ITC Bhadrachalam Paperboards Limited, JK Corp Limited and Ballarpur Industries Limited (all information given is attributable to these studies unless otherwise cited). These authors also undertook a secondary literature review and a postal questionnaire survey of other companies.

Information generated from a total of 12 companies indicates that together these companies are producing and distributing over 53 million seedlings annually. The total number of farmers involved is not known but the figure is in the tens of thousands. About 15,000 farmers got involved in the Wimco scheme and over 6,000 in the ITC scheme. The total annual area coverage, assuming 500 trees per hectare in the case of poplars and 2,500 in the case of other species, comes to about 28,000 ha every year. A large number of other private poplar nurseries have sprung up in Uttar Pradesh, Punjab and Haryana,



largely stimulated by the demand created by the schemes run by these companies. These take the estimated total number of seedlings to 63 million, and annual area to 45,000 ha. About a quarter of these seedlings are of clonal origin – with high productivity as well as disease resistance.

Box 13 Wimco: grower support scheme collapses but commercial farm forestry spreads

The Western India Match Company (Wimco) Limited is the leading safety match manufacturing company in India. The company has the capacity to produce 250 billion matchsticks per year and consumes about 75,000 m³ of wood annually. While the company has six factories located in different parts of the country, this case study mainly concerns initiatives in Uttar Pradesh.

Wimco's attention turned to farmlands when it started facing shortages of its main raw material semal (*Bombax ceiba*) that it obtained from government forests. The company identified poplar (*Populus deltoides*) – varieties of which can produce timber size trees suitable for sawing within eight years – as a suitable alternative and began extension efforts to promote its growing by Uttar Pradesh farmers in 1981. To start with, planting stock was provided free of cost to the farmers but the results were not encouraging – only 56% of seedlings survived in 1981. Consequently, Wimco stopped supplying free seedlings and started charging a nominal price. The survival rate improved to 85% in 1982 and 90% in 1983.

From 1984 to 1994, Wimco ran a bank loan scheme for farmers planting poplar under agroforestry systems in the irrigated agriculture belt of western Uttar Pradesh, Punjab and Haryana. Under this scheme, farmers were provided loans through local banks for taking up poplar plantations, which were refinanced by the National Bank for Agriculture and Rural Development. In order to secure the loan farmers had to demonstrate that they had legal tenure over the land. Wimco provided high quality planting stock, technical assistance and an assured market for the farmers by offering a buy-back guarantee for the timber at predetermined rates. Under this scheme, over 15 million poplar seedlings over 3,000 ha were planted by more than 15,000 farmers.

However, not the farmers, the company nor the bank were happy with the results. Some farmers made a good profit by participating in the scheme, but many lost heavily. This was chiefly because they took little care of the trees in the mistaken belief that Wimco would pay them a fixed amount per tree after eight years, irrespective of size and quality. Wimco failed to achieve its major objective of securing raw material for its factory as most farmers preferred to sell their produce elsewhere. In large part this was a result of poor price forecasting by Wimco, which at the start of the 8-year rotation offered a guaranteed price. At the outset this seemed reasonable, but by the time the trees reached maturity the open market price was as much as twice that. And while the bank got back most of the loaned amount, there were cases of loan default.

In the resulting mess, farmers filed 550 court cases against Wimco based either on dissatisfaction with the technical assistance provided or on attempts to make the company responsible for the loan default proceedings which were, in turn, initiated against the farmers by the bank. Meanwhile, the company got involved in 2,332 arbitration cases in an attempt to recover its dues for seedlings and technical services from the farmers.

Yet the base price for poplar had served to attract farmers into tree production and many small processing units producing plywood and peeled veneers had sprung up. Demand for high quality nursery clonal stock had become greater than supply. Wimco decided to change its strategy and, in 1993, started direct sale of seedlings to farmers at commercial rates. Between 1993 and 2000, the company sold 13.8 million poplar seedlings to the farmers of Uttar Pradesh, Punjab and Haryana. The company has now decided to concentrate mainly on research and development of improved clonal varieties and their sale on a commercial basis. Technical guidance on selection of clones, site, method of planting and tending is provided to the farmers by Wimco extension staff at the time of purchase and planting of seedlings. This is built into the cost of the seedlings. Beyond this the company takes no responsibility for the trees or their marketing.

Wimco has thus calculated that its best strategy to secure raw material is simply to become the most prominent buyer of quality wood from the farmers. Although the original 'partnership' scheme with the farmers has died, it has served to create a major surge in farm forestry and considerable rural employment.

Sources: Saxena, 1998; Saigal and Kashyap, 2001

4.2 Lessons learned by companies

The experience with the two early phases of schemes – subsidised tree seedlings and bank loans – has been mixed. The current strategy of most companies is to focus simply on development, production and supply of high quality seedlings for sale to farmers, sometimes backed up with investment in extension, without entering into any more complex arrangements with them. The following lessons from experience for the companies seem to explain this state of affairs:



Subsidised seedlings are unloved by farmers

Most companies start their efforts with the supply of free or subsidised seedlings to farmers. However, they have generally discovered that farmers do not take sufficient care of such seedlings and have either reduced or completely stopped such subsidies.

Loan procedures must be efficient

Slow and bureaucratic loan sanction and instalment release procedures have hampered the schemes. In general, smaller banks such as co-operative banks have handled loans much better than the larger nationalised banks.

The open market is more attractive than a buy-back guarantee

Most farmers harvested their trees earlier than the rotation period envisaged under the schemes. Farmers also felt that the seedling and the technical extension costs being recovered by the companies at the time of purchase of wood from the farmer were high, and sold the wood elsewhere.

Extension goes hand in hand with seedling sales

Apart from supplying seedlings, companies have invested considerably in extension work to popularise tree farming. Several companies have set up

Box 14 ITC Bhadrachalam Paperboards Limited: research and development pays off

ITC Bhadrachalam Paperboards Limited (ITC BPL) has an integrated pulp and paper mill located in the Khammam district of Andhra Pradesh. To make full use of its capacity the mill needs a supply of 260,000 metric tonnes of pulpwood annually. Recognising the difficulties of raising its own plantations due to land ceiling laws, and the decreasing likelihood of sourcing supplies from government forests, like Wimco the company turned its attention to farmlands.

Between 1982 and 1986, ITC BPL distributed 4.67 million free eucalyptus seedlings to farmers. But farmers often did not take much care of the seedlings. Like Wimco, the company turned to a bank loan scheme. The scheme ran from 1987 until 1995, resulting in some 7,441 hectares of tree plantations on the holdings of 6,185 farmers in 1,138 villages in eight districts.

The company encountered a range of problems, such as delays in getting the farmers' loans sanctioned, and failed to achieve the raw material security it craved. Many farmers reneged on their loan repayments, harvested their plantations earlier than the rotation period stipulated in the scheme, and sold their wood elsewhere – even when ITC BPL waived the scheme's service charge.

At present, the ITC BPL is concentrating on development and sale of better clones to the farmers. The company's research and development programme started in 1989, and 11 different eucalyptus clones (called Bhadrachalam clones) are being sold on a commercial basis. Up to 2000, the company had sold over 7.2 million clonal seedlings of eucalyptus. It is also working on genetic improvement of casuarina and plans sales of casuarina clonal seedlings in the near future. While the company currently offers a buy-back guarantee at an agreed price, it plans to do away with this and to buy only at the prevailing market price.



demonstration plots, and most publish literature related to tree farming in local languages and conduct workshops and tours for the farmers. Companies such as JK Corp have set up a large number of billboards on roads while the staff of Wimco regularly participate in broadcasts about tree farming on local radio.

Research and development bring good returns

Several companies are currently focusing on tree improvement work to make farm forestry more attractive to farmers. This requires considerable investment in identifying suitable species and developing and multiplying improved clones. The earlier schemes to stimulate farm forestry have created commercial demand, and these companies have carried out intensive research and development work in the past few years, bringing results in the form of better clones and management packages. The two most notable efforts in this regard are development and popularisation of poplar clones by Wimco in north-west India and eucalyptus clones by ITC BPL in Andhra Pradesh. The combined sale of Wimco, ITC BPL and JK Corp is about 5.75 million clonal seedlings per annum. In money terms it comes to sale of about Rs 72.3 million each year (about US\$1.5 million) and the figure is likely to increase sharply in the future. In the case of poplar, Wimco has begun to face stiff competition from other private nurseries that are producing and selling seedlings at much lower rates.

Box 15 JK Corp Limited: good returns from investment in extension

JK Corp Limited (named after Jayakaypur, Orissa) established JK Paper Mills – an integrated pulp and paper plant – in the Rayagada District of Orissa in 1962. The current capacity of this plant is 130,000 tonnes of pulp, and 90,000 tonnes of paper, per annum. Until restrictions were introduced in the 1980s, raw material supplies were cheaply available from government forests. But with new sources of supply in mind the company formed a forestry unit in 1990 to focus on plantations on farmers' lands.

A leasing scheme was started – targeted at absentee landlords and other farmers who were unable to cultivate their dry and fallow lands – under which the land holder was paid a fixed sum on a monthly, half-yearly or annual basis and the company bore the cost of raising and maintaining a plantation. But the scheme was hampered by unclear tenure and illicit felling and was discontinued in 1997.

In 1993, the company started a bank loan scheme (similar to the schemes of Wimco and ITC BPL) with assistance from the National Bank for Agriculture and Rural Development. But many of the farmers turned out to be ineligible for loans, whilst others faced non-cooperation from bank officials. Only 3,205 of the planned 5,000 ha were covered in trees, and this scheme too was stopped in 1998.

Since 1990 JK Corp has also been supplying seedlings at subsidised rates to farmers, and has invested in decentralised nurseries and extension efforts. Some 12,935 ha of plantation have been created in this way. The company has started its own research and development programme to develop better clones of eucalyptus and other species and since 1999 has been selling six eucalyptus clones (called JK Super Clones). It was estimated that 0.7 million clonal seedling would be produced in 2001. The company plans to continue to concentrate on extension and to phase out subsidised seedling sales and shift entirely to commercial sale of clonal seedlings in a few years' time.

Although these nurseries are only multiplying the clones developed by Wimco, the company is unable to take any legal action against them due to the absence of patenting or a system of nursery registration.

4.3 Lessons learned by farmers

The bank loan schemes of the 1990s seem to have had major drawbacks and have largely run their course. But these schemes did play an important role in popularising tree farming in their areas. The availability of loans, packages of technical services, buy-back guarantees and extension efforts convinced many farmers to try tree farming for the first time. Many, who found it to be a profitable venture, continued even after the closure of the schemes.

The company-farmer relationships have demonstrated that farmers of certain regions, given the right policy environment and incentives, are willing and capable of raising tree crops on a large scale. Farm forestry today is a notable and increasing land use in five main areas in India: Western Uttar Pradesh along with parts of Punjab and Haryana, coastal Andhra Pradesh, parts of Karnataka, Kerala and North Bihar areas. It is mainly in the western Tarai region of Uttar

Pradesh and coastal Andhra Pradesh where farmers have experience of relationships with wood-based industries keen to secure their tree production. Lessons from this experience include:

Farmers may be unclear what they have signed up to

Under all the bank loan schemes, there was confusion in the minds of the farmers over the terms and conditions of the scheme. Agreements between the company, farmer and the bank were mostly prepared only in English and the farmers did not understand the provisions properly. For instance, Wimco's buy-back guarantee was poorly understood, and many farmers believed that the company would purchase *all* their trees at the predetermined rates after eight years, rather than just the trees of appropriate size and quality. This led to much litigation.

Risks must be carefully weighed up

In addition to the current profitability of farm forestry over some alternative crop options, another major attraction for farmers is the lump sum income, obtained at the time of harvest. Farmers tend to view trees (especially those on

Box 16 Ballarpur Industries Limited: share-cropping gets bogged down but seedling sales are up

Ballarpur Industries Limited (BILT) manufactures over one-fifth of the India's overall paper production. BILT has four paper mills in different parts of the country. One of the BILT owned pulp and paper production plants is located at Jeypore in the Koraput district of Orissa and is popularly referred to as the Sewa Unit. The mill has a capacity of 36,500 tonnes per annum and an annual raw material requirement of about 150,000 metric tonnes of pulping material.

Facing a raw material shortage as supplies from government forests became increasingly unavailable, the company started a share-cropping scheme for raising eucalyptus and acacia (*Acacia auriculiformis*) plantations in 1994. Under the scheme, individual farmers provided their land to the company for raising plantations and in return got a share of the produce. This share was paid in advance to the farmers in the form of equated annual instalments. All planting, maintenance, protection and harvesting expenses were borne by the company. Although the response from the farmers was good, the company was forced to close the scheme in 1996 due to litigation over issues of 'alienation' of tribal land. The share-cropping arrangement worked out by the company with tribal farmers was declared illegal by the government on the basis of state law which prohibits transfer, including leasing, of tribal land to non-tribals.

After the stoppage of the share-cropping scheme, the company started distributing subsidised seedlings of eucalyptus and acacia to the farmers. In the future, the company wishes to concentrate mainly on production and sale of seedlings at commercial rates, and to increase the attractiveness of tree-growing to farmers by introducing high-yielding clones of eucalyptus in the area.

However, the need for more enabling government policies is evident. Bucking the general trend towards removal of some regulatory hurdles to farm forestry, the recent imposition of transit permit requirements for eucalyptus in three districts of Orissa may discourage tree planting by farmers.

farm bunds) as ‘money in the bank’, which can be drawn on when the need arises. Agricultural crops carry considerable risks, which, according to farmers, have increased in recent years due to erratic rainfall and emergence of new pests. Tree crops are comparatively less risky. Firstly, trees are not so easily damaged and, secondly, they can be retained on the farm if the market price falls. Even if trees fall during a storm, the farmer can still get some money by selling the wood, whereas agricultural crops usually get completely damaged. Thus, farmers prefer to grow a combination of trees and agricultural crops. For the smallest farmer, however, risk calculations may be a little different. They are generally unable to forego the food security and annual cash flow provided by food crops, and are less able to withstand fluctuations in the market prices of wood. Thus, small and marginal farmers usually limit themselves to boundary plantations or put only small parcels of their land under plantation.

Fair prices and accessible markets

The availability of remunerative prices for farm forestry produce is likely to be the major factor determining the future of farm forestry. In addition to the removal of some market barriers created by government policy noted above, it is unlikely that many farmers in the two districts would have initially made the move towards farm forestry without the buy-back guarantees offered by Wimco and ITC BPL. Availability of market infrastructure such as the presence of weighbridges, depots and market yards was also an encouragement.

Box 17 Caught out by the fine print – a tale of two tree farmers

Mr Sahadev Mohanty is a farmer owning 9 ha of land in a village in Boipariguda Block. In 1999, he took a loan of Rs 21,731 (US\$450) from the bank under the BILT-Sewa farm forestry scheme and used that money to plant eight acres (of which only 1 ha is under farm forestry and the rest has been planted under the company's social forestry scheme) of land under eucalyptus plantation. The farmer has planted about 10,000 seedlings in all, of which 3,000 were bought under the company's farm forestry scheme for which he paid Rs 1.30 per seedling. To date he has received 65% of the total loan amount in two instalments. He has a signed copy of the ‘agreement’ but is unable to read it since it is written in English.

Mr Padmanabha Bidika is a farmer who owns about 24 ha of farm land at Laxmipur. In 1995, he raised a eucalyptus plantation on 10 acres of his land with the help of a loan from the bank under the JK Corp farm forestry scheme. The total loan amount sanctioned to him was Rs 60,000 (the interest rate was 12 percent simple interest) out of which Rs 10,000 was paid in the first year in two instalments. The first instalment was received in September, four months after he had already done his planting work. By June 2000, he had received Rs 40,000 out of the total sanctioned amount, but was not planning to take the remaining instalments. He did not have a copy of the agreement and only had one bank passbook regarding his loan. He was under the impression that seedlings were supplied free of cost by the company and that the harvesting and transport costs were to be borne by him only. He was planning to harvest some of his larger trees at the age of five years and sell to the company. According to him, although the company was buying pulpwood from his area at Rs 1,200 per tonne, the net amount obtained by him would only be around Rs 800 per tonne. He felt that it would have been better if he had not taken the loan.

Box 18 Benefits of the deals for farm foresters in Uttar Pradesh

A large number of the farmers in Uddham Singh Nagar district in Uttar Pradesh plant poplar (*Populus deltoides*) trees on their farms following its introduction to the area by Wimco in the mid 1980s. Initially, most of the clonal poplar seedlings were supplied by Wimco but, over the years, a large number of other private poplar nurseries have sprung up in the area. While Wimco charges Rs 12 –18 per seedling, these nurseries charge Rs 5 – 8 because, unlike Wimco, they have not invested in research and development and are simply multiplying the clones developed by Wimco and others.

Small and marginal farmers generally plant only on field boundaries. The medium and larger scale farmers combine boundary plantation with block plantation. For the latter, a wide spacing to allow inter-cropping of agriculture crops is used. The most common spacing adopted is 5 x 4 m and the general rotation period is six years. Typically, clonal poplar seedlings are planted in January-February and a crop of sugarcane is raised as an inter-crop. In the next year, a second sugarcane crop is raised. After this sugarcane is discontinued due to the increasing shade created by the trees during the summer months. From the third year onwards, farmers shift to growing crops in the rabi (winter) season alone, when the trees lose their leaves. The most preferred rabi crop is wheat, but vegetables are also grown. A further advantage of poplar is the ease by which it can be rapidly multiplied through vegetative propagation methods – there is no need for mist chambers and other special technologies required for some other species.

When the trees are grown, they are generally sold as standing trees to middlemen, who then harvest them and cart them off to the industries – including Wimco and the other plywood and plyboard factories that have emerged in the area – or the wood market in Rampur. Government has effectively enabled the uptake of farm forestry in the area by simplifying tree harvesting and transport rules. No felling permit is needed for farm forestry species, and neither is a transit permit needed in districts where there are no reserve forests.

Basic estimates of costs and returns from farmed poplar show its current profitability over alternatives:

Approximate average yearly net returns per acre from major cash crops:

Sugarcane Rs 15,000 (US\$300)

Wheat Rs 5,000

Paddy rice Rs 8,000

Approximate average yearly net returns per acre from poplar:

Number of trees per acre 200

Rotation 6 years

Average expenditure over rotation Rs 10,000

Average net return Rs 150,000

Average return per year Rs 25,000

Average loss of agriculture income over rotation (loss of four years' paddy rice crop as well as loss in production of sugarcane and wheat) Rs 47,625

Net benefit with poplar Rs 102,375

Net benefit per year from poplar Rs 17,062 (US\$350)

Regulations remain a barrier to viable production

Government policies have encouraged farm forestry by reducing or stopping raw material supplies to wood-based industries from government forests and through removal of some legal and procedural bottlenecks. However, in some states, the government continues to supply raw material to industry from forest lands at rates lower than the market rate. And whilst, the import of wood and wood products is now virtually unregulated and customs duty on these has been substantially reduced, the export of logs, timber, bark, pulp, charcoal and other wood products remains banned. Together these factors depress domestic prices and thus adversely affect domestic producers.

Market-savvy farmers have a head start

The rise of farm forestry in both districts was eased by a farming population already well versed in growing agriculture cash crops for sale in the market. They understood the functioning of the market, so adoption of commercial farm forestry was not a great leap into the unknown.

Box 19 Experience in Prakasam district – coastal Andhra Pradesh

Companies such as ITC BPL have played an important role in promoting farm forestry in the district, especially through development and sale of high-yielding disease resistant clones of eucalyptus. Many farmers have found eucalyptus production, along with the other popular species – subabul and casuarinas – to be more profitable, currently, than agriculture crops on the coastal sandy soils. Here, because of climatic and edaphic conditions, the choice of crops available to farmers is limited.

It is estimated that over 40,000 ha of farmland is under tree crops and the district is supplying about 700,000 metric tonnes of pulpwood annually to different wood-based industries. Clonal eucalyptus, introduced in the district in 1996, is mostly planted by large-scale, better-off farmers. High initial and recurring costs have put plantations of clonal eucalyptus beyond the reach of small and marginal farmers. The cost of planting stock comes to around Rs 15,000 per hectare. Further inputs of fertiliser and pesticide, and investment in ploughing, inter-cultivation and irrigation, are then needed.

Farmers sell their trees in three ways: directly to the processing companies, through independent middlemen and through Agriculture Market Committees. These Committees were first used in 1999 at the instigation of farmers following a sudden reduction of subabul prices in 1998-99. They may serve to increase farmers' bargaining power in future. Much however depends on future pulpwood prices and the economics of alternative crops such as tobacco and cotton.

Wider impacts of farm forestry in the area are yet to fully reveal themselves. But the rise of tree planting is not without its critics. Some local farmers believe that eucalyptus and subabul plantations have reduced ground water resources, whilst others feel that eucalyptus adversely affects agriculture crops in neighbouring plots. Unsurprisingly, ITC BPL officials refute these observations but clearly there is a need for effective site-specific work by farmers and researchers to clear up such issues.

4.4 Making a long-term future for short-term contracts

In conclusion, it is clear that while potentially beneficial for both companies and farmers, long-term relationships for tree production in India are also risky for both sides. Unlike with tree crops like cocoa and oil palm, or smallholder tea and coffee schemes, relationships for timber and pulp require longer terms. Farm foresters do not benefit from the cash returns annually of these other crops and have to bear the risk of a market that, for timber, and particularly pulp, may fluctuate wildly over a five to seven year period. The companies meanwhile are reluctant to rely on farmers who may switch at any time to some other non-tree crop if prices change. Thus, there seems to be merit for both sides in getting the contractual aspects of the relationship (e.g. up-front purchase of seedlings, provision of extension) wrapped up early in these contexts.

Several key improvements could be made:

- **Bank loan schemes** can be substantially improved if: (i) loan and instalment disbursement procedures are simplified and there is greater accountability of the bank officials, (ii) the service charges taken by the companies are kept at a modest level, and (iii) steps are taken to ensure that participating farmers understand the terms and conditions of the agreement.
- **Tree farmers' associations** would help promote partnerships between companies and farmers. Companies would find it easier to deal with such associations rather than individual farmers. Farmers would benefit by developing stronger collective bargaining powers vis-à-vis the companies. This would also present a means for greater participation of smaller farmers, since at present most companies prefer to deal with a few large farmers to keep overhead costs down.
- **Regulatory barriers** to felling, transport and sale of major farm forestry species should be removed – this will facilitate easy movement of farm forestry produce from production to consumption areas.
- **Research and development** by the private sector could focus on new uses for farm forestry species. For instance, if technology is developed for using poplar as pulpwood, and/or for making eucalyptus peelable, their markets will increase greatly and they will become more popular with farmers. Government research institutions should concentrate on areas where the private sector is unlikely to take much interest, such as in developing varieties that can bring poorer farmers into the ranks of farm foresters.
- **Market information** organised in systems such as those for some other agricultural markets should be introduced to inform farmers about major buyers, prevailing prices at different places, trends and procedures.

These changes would substantially enhance the ability of company-farmer relationships to contribute to spreading farm forestry as an important strategy for improving livelihoods and potentially providing virtually all of India's industrial wood needs.

Indonesia: Third party roles and venture partnerships

“Strike thin roots in the earth and grow to become a tree.”

Pramoedya Ananta Toer,
epigraph to *A Child of All Nations*

About three-quarters of the total land area in Indonesia is classified as state forest land. Although much of this area does not in fact support forest, timber production is a major land use, even on Indonesia’s more densely populated islands. Farm forestry is also a competitive option for smallholders in some areas, as the first case study presented here demonstrates: an outgrowing scheme in Sumatra (based on Gunawan and Muhtaman, 2000). More commonly, however, forestry companies’ relationships with local communities are centred on each other’s use of state land. The vast scale of this national forest estate means that rural people’s struggles for land rights are fought in the arena of forestry. Recent economic and political upheaval in the country has given more space to question the legitimacy of the government’s extensive control over land. In response to this pressure, management of state forest land is beginning to change, albeit slowly. The second case study presented here looks at recent initiatives in the long-running tenant farmer arrangements in the state-owned teak plantations of Java (based on LATIN, 2000).

5.1 Xylo Indah Pratama (Faber Castell) and local landowners in South Sumatra

Xylo Indah Pratama (XIP), an Indonesian company allied to the multi-national Faber Castell, manufactures pencils for export. The company set up a factory in Musi Rawas District in South Sumatra in 1989, buying in wood from local logging concessions. However, within three years, supplies of wood from natural forest became scarce and expensive. Therefore XIP began to seek alternative sources of raw materials for pencil slats. An inexpensive substitute was quickly found: pulai (*Astonia scholaris*), a tree that occurs as a weed in the rubber plantations and home-gardens of local small-scale farmers. Today XIP sources 80% of the wood needed to meet the factory’s capacity of 10 million pencils per year via purchase of pulai from local farmers.

Soon after the system of purchasing had been set up, XIP looked further ahead for a means of ensuring a long-term cheap and sustainable supply of pulai. Consultations with the Musi Rawas District Forest Office led to the development in 1997 of a partnership between XIP and local landowners to cultivate pulai on a joint basis, with financial security provided by the District Forest Office. The



first harvest is expected only in 2008, so it is too early to judge the success of the scheme but several valuable insights are already emerging.

Framework of the XIP partnership

Local landowners provide previously unutilised land for planting pulai. XIP is responsible for planting and management of the pulai while the District Forest Office supplies the capital to support the costs of production until harvest. The scheme is four years into its proposed 11-year cycle and so far has grown to include:

- Over 1,800 farmers signed up in 27 villages
- 30 established Farmers' Groups
- Nearly 6,000 ha planted, now ahead of the planned rate of 1,000 ha per year for 10 years
- Rp 11 billion (about US\$1 million) credit extended by District Forest Office as Reforestation Funds

Net proceeds from sales, minus forest product taxes and interest on the loan over 11 years at 6% per year, will be split on a 50-50 basis between XIP and the landowners. Since the XIP factory is expected to buy up the entire crop, the sale price will be calculated according to current market rates for pulai at the time of harvest. Under the terms of the partnership, landowners may choose to sell the harvest from their land to buyers other than XIP.



Both partners were highly motivated at the outset to set up the partnership, XIP to secure a lasting cheap source of raw materials and the landowners because they were given an opportunity to derive income from land previously regarded as wasteland. Also, local residents hoped that the XIP partnership scheme would provide more local employment and community development projects. The District Forest Office was prepared to provide financial support because the planting of wasteland with pulai represents reforestation and therefore counts towards regional targets for environmental improvement. Support also came from local government, who saw the partnership as an opportunity to increase revenues.

The partnership is formalised through contracts, known as Partnership Agreement Letters, between the company and specially created Farmers' Groups. The idea behind the Farmers' Groups was to decrease transaction costs for XIP. Each group includes about 50 landowners, but only the leader of the group signs the contract and interacts directly with XIP staff. More recently landowners have expressed dissatisfaction with the limitations of the Farmers' Groups. XIP has been quick to capitulate and now offers individual contracts as an alternative to the arrangements with Farmers' Groups.

Several third parties are involved in the partnership. The most important of these is of course the District Forest Office, since without its considerable financial support the scheme would not exist. Other important parties are local government officials, in particular the Sub-District Heads and Village Heads,

who are responsible for providing the various guarantees of land ownership necessary for individuals to join a Farmers' Group or enter into an individual contract with XIP. Also, the district military command and police are responsible for security issues during the implementation of the partnership.

Interactions between company and community

XIP employs 28 full-time members of staff in its Community Timber Forest Development Division, which was set up with the express task of overseeing partnerships with local landowners. Of these staff, 21 are based in camps out of the office in order to be more accessible to participating landowners and community members. Nonetheless, a common complaint among landowners is that there have been few meetings between XIP and themselves. Furthermore, the high turnover of XIP staff at the camps is a big obstacle to continuity and building long-term relationships.

The company, on the other hand, complains that the landowners and other local residents have made too many demands on the company, including those which have nothing to do with the partnership scheme, for example requesting loans in times of personal need. The policy of working with the leaders of the Farmers' Groups only is deliberately designed to relieve pressure on company staff, who feel that they are overstretched already in having to co-ordinate 30 separate Farmers' Groups. XIP has a deliberate strategy of limiting dialogue since in its view dialogue will only lead to additional problems. Subsequently, the landowners have a very limited role in the actual management of the pulai plantations. Although they own the land, they remain uninformed of the technical aspects of pulai cultivation, the financial status of the partnership and any future plans for the scheme.

Distribution of risks and benefits

XIP made an initial investment in researching possible raw materials to replace supplies of wood from logging concessions in natural forest (as well as pulai, it ran trials with two other species), but once the interest of the District Forest Office has been attracted, XIP was able to pass on almost all of the financial risk of the scheme. The company will not be asked to meet repayments should the scheme make insufficient profit to cover the credit from the District Forest Office. XIP also carries very little risk of lost supply, since the large scale of the pulai plantations means that the company will fulfill the entirety of its raw material needs from the partnership scheme even if there is only a 10% success rate among the trees.

For the landowners, the opportunity cost of giving over the land to pulai production has not been important, since the land on which the pulai was planted was not previously cultivated due to constraints of capital and labour. In theory, landowners also have access to loans of reforestation funds from the District Forest Office, to cover inputs such as coffee and cocoa seedlings, fertiliser, herbicides and pesticides, but reportedly few farmers have actually

received money. Nonetheless, if any farmers who do receive credit then fail to harvest a crop, they will not be held responsible for repayments. The risk accruing to landowners is also reduced because they are not tied to the full 11-year contract but may withdraw their land from the scheme at any time.

Thus the bulk of risk in the partnership between XIP and small-scale landowners is in fact taken by a third party, the Government of Indonesia, represented by the District Forest Office. This risk is ultimately passed to Indonesian tax payers. The main attendant benefits are the political benefits associated with being seen to reforest a degraded landscape and support sustainable forestry – benefits in which the government has been prepared to invest heavily, extending credit of over US\$ 1 million to date.

Changes over time at XIP

The concept of the partnership was first introduced to local landowners by the District Forest Office, who encouraged their participation with projections of high success rates and excellent returns. In reality there have been several setbacks. Firstly, the practice of intercropping promoted by the District Forest Office was abandoned by almost all farmers after the second year because of the great cost of keeping down weeds and because there were substantial losses to wild boars. Also, pulai seedlings that were planted in swamps either died or were deformed. Most of the owners of swampy fields withdrew their land from the scheme. One result of this was widespread discouragement among participating landowners who feared that they had been misled and would not receive any ultimate profits from the partnership. XIP subsequently began to develop pulai rawa (swamp pulai) for the wet areas. However, it is now clear to landowners that the tree is performing much better in some fields than others and that therefore the benefits from the scheme are not going to be distributed evenly among or within the Farmers' Groups.

Simultaneously XIP sought certification for the plantations under the partnership and was successful in achieving a Forest Stewardship Council certificate that the plantations were managed sustainably according to silvicultural, social and environmental criteria. The audit did require that XIP fulfill certain conditions, which were met satisfactorily by the time of the follow-up audit in 2001. Certification is very valuable to XIP for reasons of public relations and marketing advantages in northern Europe, where the allied company Faber Castell is based.

The future: towards greater equity and security?

The partnership between XIP and local landowners is not envisaged as a permanent arrangement. Nonetheless, for individual participants, the contracted 11-year time span is a considerable commitment. The contract cannot be renegotiated and also includes a clause precluding lawsuits on either side. Thus there is little flexibility or leverage within the terms of the partnership. This is borne out in an increasing sense of disempowerment among

participating landowners. A widespread complaint is that they have not even been given the promised photocopies of their own Partnership Agreement Letter. After the original planning meetings, neither XIP nor the District Forest Office has continued to visit them, so that communication between the partners has deteriorated over time. There is no onus on the company to pass on financial or technical reports to the Farmers' Groups.

The landowners have felt increasingly dissatisfied, but on the whole have responded in a dissipated fashion. Individuals have approached the company with complaints or for immediate financial assistance, but there has not been simultaneous social organisation. The Farmers' Groups have not developed into effective institutions – they do not hold meetings, let alone operate as organisations for collective bargaining with XIP. If anything, the Farmers' Groups have become weaker institutions over time as they have been deprived of access to information on the context and progress of the partnership. While the company has an entire division devoted to running the partnership, participating local landowners do not have the time to spare to invest in managing or monitoring the scheme.

Recently government policy has changed so that the disbursement of reforestation funds is now controlled centrally rather than through the District Forest Office (contrary to the overall trend towards decentralisation in Indonesia). For the time being, the system of credit to XIP and partners has been suspended, with the immediate effect that the rate of planting has slowed down. What the longer-term impact on the scheme might be is yet to be seen.

5.2 Basic taungya scheme turns to venture partnerships – PT Perhutani and local farmers in West Java

Even in Java, Indonesia's most densely populated island, over three million hectares (a quarter of the land area) is designated as 'production forest'. Timber production in most parts of Indonesia is carried out by a variety of multinational and local companies, but in Java all production forest is under the control of a state-owned company, PT Perhutani (presently in the process of privatisation). Perhutani manages the forests of Java for maximum production of teak (*Tectona grandis*) and a small number of other timber species. Since its inception in 1963, Perhutani has perpetuated the Dutch colonial practice of tumpang sari (taungya), whereby local people are allowed to intercrop forest land with their own crops during the first few years of tree growth, in return for tending the young saplings (Peluso, 1992).

During the second half of the 1980s, Perhutani, pressured by local demands for reinstatement of customary land rights and by international trends in forest policy, realised that it would have to allow greater involvement of local people in forest management. After a pilot project in 1986, a broad programme known

as Forest Village Community Development (Pembangunan Masyarakat Desa Hutan, or PMDH) was initiated in 1992. One of the pilot sites is Kuningan, in West Java Province.

The official objectives and scope of the PMDH programme are presented in Box 20.

Box 20 Official objectives and scope of PMDH

The objectives and target of the PMDH partnership programme are:

1. To increase the success of forest development and conservation
2. To improve the performance of PT Perhutani staff in implementing PMDH
3. To treat forest village communities as partners in forest development with the aim of achieving mutual benefits
4. To increase the skills and income of forest village communities in the attempt to eradicate poverty and develop forest villages
5. To improve land use capacity and the physical environment, and increase community awareness of the environment

The scope of activities under the PMDH partnership programme covers:

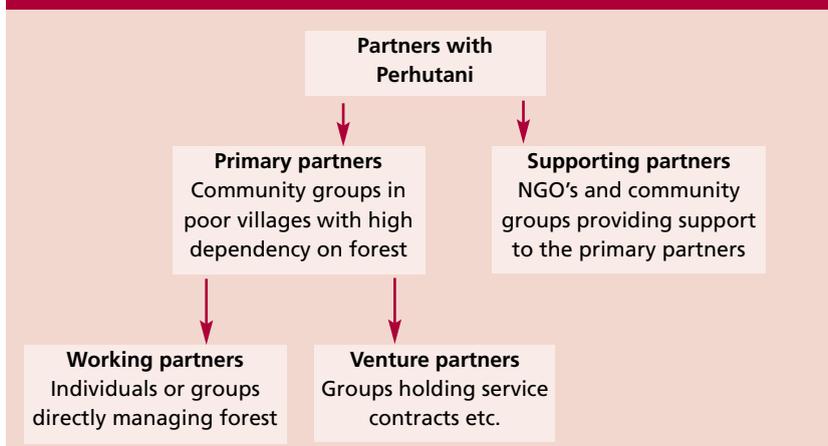
1. Activities that can be carried out in all work areas of PT Perhutani
2. Forest villages with communities who are dependent on the forest and/or forest products as their main or secondary source of income
3. Forest village communities with low socio-economic conditions
4. All activities related to forest management, and other activities that can increase the welfare of communities

PMDH in theory and practice

Potentially, PMDH allows for a variety of different models of forest co-management between Perhutani and other partners. Management decisions about the forest are in theory shared between Perhutani and local partners, and the distribution of the associated costs, benefits, risks and opportunities are open to negotiation. Partners are categorised as shown in Box 21. In practice, working partners are those who participate in taungya schemes. Typically they are allocated plots of land in 1 ha plots, each to be farmed jointly by 4-5 households. PMDH allows the working partners to use these plots for two full cycles of the primary crop (timber trees), but in reality the plots are abandoned after 3-4 years when the canopy closes over.

So far in Kuningan, 50 working partner groups and two venture partner groups have been formed. Working partner groups are formed either via existing community organisations or via nominations initiated by Perhutani. The latter process is intended to be democratic, but usually entails selection of members by a Perhutani foreman and (predominantly male) village officials. Each working partner group has about 20 member households, with one delegated as team leader. Each household has a stake in a plot of about one hectare shared with about four or five other households.

Box 21 Types of partners in PMDH



Individual contracts between the working partner groups and Perhutani are not normally drawn up, but rather are expected to conform to a general set of rights and responsibilities (Table 8). Exceptions have been made for four villages that have been in greatest conflict with the company. For these villages, memoranda of understanding (signed by local forestry officials and by male community members) lay out specific tasks for Perhutani and pledge support from villagers to adhere to existing regulations. The memorandum of understanding (MoU) for Dukuh Badag village is given as an example in Box 22.

Box 22 Memorandum of understanding between Perhutani and Dukuh Badag village

Perhutani Kuningan agrees to:

- Assist in increasing employment opportunities through various activities, specifically in the field of social forestry
- Assist in increasing village economic development and income of the community
- Assist in increasing community skills in fields needed
- Finalise the legalisation of a cooperative, provide necessary capital and training for the managers of the cooperative, and provide easy access to wood materials needed for the building of a mosque in Dukuh Badag village
- Give preference to local labour in KPH Kuningan activities involving planting, production or building skills

The community of Dukuh Badag village agrees to:

- Actively preserve and protect the forest in the village boundaries, directly and indirectly, with the assistance of KPH Kuningan
- Motivate the community to care for the forest and refrain from destructive activities that will harm the forest
- Facilitate the work and security of KPH Kuningan personnel when conducting wood control and inspection activities

In addition, both parties agree that if there are any disputes that cannot be resolved through negotiation, legal action will be taken. The MoU does not state the duration covered by the agreement.

Interviews with members of the working partner groups reveal that they view the partnership as a simple labour-for-land deal – an unsatisfactory deal, but one that they tolerate because agricultural land is locally scarce. Their accounts of the partnership are concerned with the technical details of operation. Perhutani staff provide instructions for land preparation in logged over areas, including weeding and basic terracing, transportation of timber tree seedlings from the roadside and subsequent planting in pre-determined grids. Members of the working partner groups who provide the labour for these activities are compensated with small and irregular wages of Rp 50 -100 per seedling (about 0.5 - 1 US cent). Perhutani donates legume seedlings for intercropping, and sometimes small amounts of fertiliser, but working groups must provide other crop seeds and inputs themselves. At harvest time it is customary for working groups to give tithes to the Perhutani foreman.

Rights of PT Perhutani	Rights of the Working Partners/Venture Partners
<ol style="list-style-type: none"> 1. Determine the administration of forest utilisation, taking into account the aspirations of the community. 2. Collect forest products in the form of timber (trees and multipurpose species) and non-timber (resin, eucalyptus leaves, etc). 3. Organise the activities of the PMDH program together with Working Partners/Venture Partners according to a joint agreement. 4. Assist and facilitate Working Partners/Venture Partners in developing their economic and institutional development. 5. Terminate and withdraw PMDH assistance to Working Partners/Venture Partners if they conduct activities that go against the objectives and agreement of the PMDH program. 6. Provide assistance withdrawn under point 5 to other parties. 7. Request individual or organisational accountability from the Working Partner/Venture Partner and other parties regarding activities that are not according to the objectives of the PMDH program. 	<ol style="list-style-type: none"> 1. Acquire share of land (specifically for planting). 2. Acquire a portion of the yield from multipurpose tree species planted for intercropping, tree species planted for enriching, and tree species for border or as a buffer. 3. Organise group participation in, among others, non-timber agroforestry harvesting, technical and economic assistance, and intercropping areas. 4. Participate in forest utilisation activities and other activities, such as cultivation of seedlings, planting, care and maintenance, thinning out, tapping, felling, harvesting, transportation, industry and ecotourism. As well as harvesting forest products permitted by PT Perhutani, such as gathering grass, bee keeping, and collecting timber from thinning as provided by PT Perhutani. 5. Receive technical and economic assistance, technical and skills training, and marketing assistance.

Responsibilities of PT Perhutani	Responsibilities of Working Partners/Venture Partners
<ol style="list-style-type: none"> 1. Provide unrestricted opportunities to forest village communities to be involved in forest utilisation and other ventures. 2. Conduct forest utilisation training for forest village communities. 3. Provide technical and economic assistance according to the company's capability. 4. Provide education and training according to the company's capability. 5. Coordinate with relevant agencies. 	<ol style="list-style-type: none"> 1. Participate in providing training to forest village communities. 2. Manage and coordinate community groups in preserving the forest (prevent theft, grazing, fires, etc). 3. Apply social sanctions to community members who disobey the law on forest conservation (in coordination and consultation with local village authorities). 4. Share the responsibility for forest development and preservation. 5. Report on the receipt and use of all assistance components under the PMDH scheme to PT Perhutani.

Distribution of risks and benefits: 'working partners'

Even though Kuningan is a flagship site for PMDH, the scope of the scheme is limited. Only 1,000 of the 39,000 ha of production forest under PT Perhutani has been allocated to PMDH, and only 2,000 households – less than 1% of Kuningan's population – have been involved in the scheme. The process of joining PMDH as a working partner is not transparent or equitable. Officially preference is given to landless families, but in practice people with good social connections to village officials or the local Perhutani foreman are more likely to be chosen as members of working partner groups. One outcome of this is that some households have shares in more than one plot of land in the forest (more than one working partner group) while others, who are less able to negotiate with officials, remain landless.

Arrangements between working partner groups and Perhutani are, as described in the previous section, very simple. Partners remain responsible for all the risks associated with their own crops, even when those risks involve the other partner directly. For example, Perhutani has no official means of getting reparation if working partners fail to protect the timber saplings on their plots. According to interviews with local residents who participate in PMDH, the level of interaction between Perhutani staff and working partner groups is minimal. Perhutani invested in training and meetings early in the scheme, but now the only meeting between Perhutani and working partners occurs at the initial allocation of land. An upshot of this lack of communication is a general ignorance about the nature of the PMDH partnership and the opportunities it might offer. None of the interviewed PMDH participants knew, for example, of the written agreements that existed between their own villages and Perhutani.

Lack of knowledge about PMDH is a problem for Perhutani also. The head of Perhutani in Kuningan admitted that even he was not clear about the scope, rights and responsibilities associated with PMDH, nor what he could use as indicators of success of the scheme. While this is partly due to the complexity of policy made by Perhutani and the Indonesian Ministry of Forestry, a bigger problem is the highly centralised mode of decision making within Perhutani. PMDH was introduced to Kuningan through a directive from the Perhutani head office in Jakarta, from where the scheme was designed in its entirety. Thus Perhutani staff in Kuningan have very little room to practise adaptive management or to tailor the scheme more closely to demands from local partners.

New models: 'venture partners'

The mode of partnership between Perhutani and working partner groups has a narrow scope and represents little advance on the *taungya* schemes of the early 20th century (see Peluso, 1992). Venture partner groups, on the other hand, are a much newer concept, with more flexibility and less historical baggage. As such, the venture partnership may be a good working model for emerging company-community partnerships in Indonesia. The venture partner groups are small local cooperatives, which might be pre-existing or might form in response to an opportunity of collaboration with Perhutani. The major benefit of membership of a venture partner group is access to low interest credit from Perhutani, which the company extends to foster better company-community relations. Perhutani also offers the venture partner groups first option on small-scale forest infrastructure work – such as building security posts, roads and bridges – up to a fee of Rp 15 million (about US\$ 1,500).

One venture partner group – Koperasi Penggerak Pariwisata (Kompepar, or Tourism Promotion Cooperative) – has succeeded in negotiating an improved partnership with Perhutani. With organisation and management facilitated by an NGO from Bandung the cooperative formed a working group focused on ecotourism to manage a designated tourism area within the forest. The working group was able to negotiate formal control over the tourism area, with Perhutani receiving annual rents. Kompepar had a strong bargaining position because it already had effective control over the lakeside tourism area, because its management of the lake and forest was already good, and because it could offer Perhutani more in rent than the company had been able to collect as profits from tourism.

Towards joint decision making

During recent years there has been increasing pressure on PT Perhutani to reach more equitable compromises with local forest stakeholders. Nationally, *reformasi* (political reform in the post-Suharto era) and, more recently, the ambitious programme of regional autonomy (devolution of many functions from central to local governments) have together made space for a far greater rate of change and for local engagement in politics, including the politics of forestry.

Regional autonomy has also brought important new stakeholders into play – local governments who are keen to secure the proceeds of logging and are prepared to challenge Perhutani. The company is being squeezed in the marketplace too: in 2001 certification was withdrawn from its five certified teak plantations on Java, mainly because of the company's failings at co-management with local people (Donovan, 2001).

At the same time local residents have been frustrated by the slow rate of reform in forestry and land use. Consequently the level of conflict between local people and Perhutani in Kuningan has escalated rather than diminished since the inception of PMDH in 1992. A villager in Dukuh Badag village was shot dead by a forest ranger in 1998 and Perhutani staff report that the levels of theft and vandalism in the forest have been growing. Elsewhere in Java, villagers have taken direct action, for example squatting Perhutani teak plantations (Achdian, 2001).

The PMDH programme was originally intended to share 'all activities of forest management' between Perhutani and residents in and around the production forests of Java. In actuality the scheme has largely confined sharing of management to simple land-for-labour deals. To date there has not been much sharing of the many technical decisions needed to maintain a productive forest, nor, more crucially, sharing of broader decision-making about overall land use or systems of forest governance in Kuningan.

As a response to the limited achievements of the PMDH scheme, a new programme has been proposed and is in the early stages of development, known as the Managing the Forest with the Community Programme (Pengelolaan Hutan Bersama Masyarakat, or PHBM). PHBM represents an advance on PMDH in that the mechanics of the scheme are being worked out through a series of multi-stakeholder fora in Kuningan, involving local residents, NGOs, local government and Perhutani. The dialogue among these groups includes tackling the major issue of where decision-making power should be located. At another site in West Java Province, Buniwangi village, farmers' groups have used the PHBM process to negotiate for a share in timber profits – the first success of this kind in Indonesia (Box 23).

The PHBM negotiation process appears to be leading to a new balance of power among forest stakeholders in Kuningan, though approval from the central Perhutani offices will inevitably be required before actual practices of forest management are reformed. Other stakeholders will need to develop strong arguments to influence Perhutani policy. At present Perhutani assesses the success of partnerships with local people only in terms of productivity of timber. The partnerships have involved very little transfer of risks, costs and revenues between the partners. As far as Perhutani is concerned, partnership – as experienced to date – can bring the benefit of reducing conflict with at least some members of local communities, but carries appreciable administrative

costs. Whether PHBM can bring new impetus for more equitable sharing of forest resources is yet to be seen, and will depend in large part on the alliances and positions built by other stakeholders. This will be an interesting process to track, with lessons for similar negotiations in Indonesia and logging areas around the world.

Box 23. Sharing the profits of timber: experience at Buniwangi Village, West Java Province

Tumpang sari – Indonesia’s tenant farmer or taungya system – has remained essentially unchanged since it was first introduced in 1873. The communities of Kuningan are pioneers of change towards more equitable co-management schemes, but the first community to secure a share in the profits from the timber itself is the village of Buniwangi in western Java. During 2001, extensive negotiations between villagers and PT Perhutani resulted in a memorandum of understanding awarding 20 % of proceeds from harvested timber to local households, with an additional 10 % going to village development projects. About 600 of the 1000 households within the village boundary are participating directly in the benefit-sharing scheme. Each household has a 0.25 ha agroforestry plot within the state forest land managed by Perhutani. Management of trees and crops is negotiated, leading to compromises other than the sharing of timber profits. For example, bananas, historically forbidden under tumpang sari because of their shade, have now been planted extensively. Although Buniwangi is an inspiring example for similar communities in Java, the timber planted under the 600 ha scheme is pine – Perhutani may be reluctant to extend the scheme to its high value teak plantations, especially in the more productive regions of central and eastern Java.

Source: Interviews with key informants at Buniwangi village, 2001

Papua New Guinea: Notorious logging rip-offs and better timber lease deals

Forestry in Papua New Guinea is well known internationally for two main characteristics, both of which are highly relevant to the subject of company-community partnerships: communities with strong legal title to their lands and forestry companies which are ‘out of control’.

This chapter draws on work by Filer (1998) to further describe the kinds of arrangements arising out of these characteristics, but first some facts about forests and forestry in Papua New Guinea.

More than two-thirds of the country is covered by primary forest, representing an enormous timber resource and a globally significant storehouse of carbon and biological diversity. There are an estimated 26.2 million hectares of forest in Papua New Guinea, of which some 3 – 4 million ha have been logged or converted to other land uses. Under the present system, the government bundles up forest areas into Forest Management Agreements, which are then made available by concession to commercial firms. Of the total remaining, 10.5 million ha have been acquired by the government, including 6.1 million ha allocated under permit to 42 private logging operations carried out by some 23 overseas-owned companies. Log exporting is the most important activity of these companies. Annual log exports averaged 2.25 million m³ over 1996-99, generating US\$ 931 million in foreign exchange earnings and US\$297 million in tax receipts over the same period. However, the forest products industry suffered a severe downturn during the recent Asian financial crisis, and future prospects remain unclear (Hunt, 2002).

Communities in Papua New Guinea own 97% of the land. That is the proportion of all land, much of it with extensive forests on it, held under constitutionally guaranteed customary ownership – by the ‘customary landowners’. This simple fact of ownership of the resource grants communities much bargaining power, and the prospects for forestry bringing good returns to local people would seem to be high.

The international notoriety of Papua New Guinea’s piratical forest industry stems from the Barnett Report commissioned by the PNG government in 1987. This 20-volume report described questionable ‘partnerships’ between foreign investors and national leaders in which the volume of logs exported was maximised with no regard for environmental damage or the development of

“You have to go into these deals with your eyes open my friend.”

Community representative in logging agreement, Papua New Guinea



local processing capacity. The report called for a slow down in timber harvesting, and advocated the reformulation of national forest policy, establishment of a nationally integrated forest service, consultation procedures in allocation of permits, and formalisation of detailed requirements for sustained-yield forestry.

A final factor, which makes the direct relationships between companies and communities of particular interest in Papua New Guinea, is the severely limited capacity of public institutions to take action of any sort in rural areas. This stems from the centrality of the customary land ownership situation described above, the weaknesses of a political system that tends to favour the pursuit of only short-term personal power bases, and the continued perversity of actual policy outcomes.

In the following sections we examine the reality of the deals struck between communities and logging companies in Papua New Guinea, to find out who is benefiting – and what’s happening to the forest.

6.1 ‘Communities’ that become ‘companies’

The 1991 National Forest Policy regarded companies registered by community representatives, or ‘landowner companies’, as one of the most important vehicles for ‘national control’ over the forest industry. At this time, such companies held more than half of the operational timber permits. Today, landowner companies remain an important vehicle for local involvement in the ownership and control of large-scale logging operations.

However, much criticism has been levelled at such companies. Landowner company directors are often seen as nothing more than puppets of the logging companies who cannot claim to represent the interest of their communities (Simpson, 1997). Most of these companies have been formed for the exclusive purpose of ‘capturing’ a foreign logging contractor, for which traditional models of collective enterprise seem ill-prepared.

Whilst it is frequently said that landowner companies malfunction because they are not representative, the reasons are somewhat more complex. Logging companies foster their own interests by garnering favour with landowner company managers and directors at the expense of broader community interests. The ability of the community to take action with respect to breaches by the landowner company is handicapped because such problems often exploit pre-existing factional divisions within the community.

Many landowner companies lack the capacity and capital to effectively manage a logging operation and so become dependent on the logging contractor, sharing offices, fax numbers and even bank accounts. The interests of the landowner company thus become inextricably tied to those of the contractor who provides

Box 24 Divide and rule forestry: company-community logging deal in Makapa, Western Province

The communities in the Makapa area have watched their region undergo a process of stagnation over the last twenty years or so. The arrival of a proposed logging project fostered the proliferation of 'landowner companies' formed by the more influential men. These provided quite a large number of men with access to unprecedented wealth, prestige and influence, by bringing them into regular contact with developers and networks of bureaucratic power in Port Moresby, the capital of Papua New Guinea.

But despite this expansion of practical knowledge about modernity, the landowner groups have so far been unable to create any organisation that represents their united interests. Pre-existing divisions, and intense competition for senior positions in the landowner companies are in part to blame. But the landowners have also been further divided by competing logging companies, each interested in maintaining patron-client ties with a small group of 'representative landowners' who are dependent on the investor for further funds and resources. Other landowners often bitterly criticise these landowner company directors for 'tricking the people' by doing deals in Port Moresby. Partly because of such criticisms, some men holding senior positions in the landowner companies rarely leave Port Moresby, and have little contact with people at village level.

Many landowners still have little understanding of the transaction they have entered into with the logging company. They believe that since they own the land, all their possessory rights in the trees are still active, and they can just 'try out' any logging company that comes on to their land and, if they are not happy with its operation, they will be able to send it away. In fact their timber rights have been acquired by the government, whose ability to safeguard landowner interests is basic at best.

Source: Wood, 1997

its income stream, at the expense of the interests of the communities the landowner company is presumed to represent. Board members will regularly engage in political manoeuvring to secure their power and influence on the board and then consolidate their positions through patronage. It is common for landowner company directors to utilise community funds as their own, much as they perhaps see some politicians using government funds. Lack of compliance with audit requirements, and the inability or unwillingness of shareholders to demand adequate reporting and accountability, compounds this situation, so that problems may not be identified until the resulting losses are significant (Whimp, 1997).

Nevertheless, it has proven difficult to legislate or persuade the formation of more representative and democratic systems of local forest governance, and landowner companies remain the main expression of community voices in the commercial forestry sector.

Box 25 Two Wongs don't make a right: company-community logging deal in Hawain, East Sepik Province

Like many areas in Papua New Guinea, Hawain is an area where there is considerable dispute between groups over land. Some local people realised that, since the foreign logging company Sovereign Hill was obliged to recognise their land claims when they were granting access to their forests, they could gain the upper hand over their kinsmen. They acquired a greater capacity to decide how the land was used by offering it to the logging project than if they withheld it, and they set up a landowner company, WongWong.

The stake many local people came to perceive that they had in the outcome of the logging operation set off a quest for increased literacy and knowledge of the law. Despite the directors of WongWong putting obstacles in the way of their kinsmen gaining a full understanding of their legal rights and the various contracts they had signed, it seems that knowledge about forestry and corporate law, the conduct of business, and the behaviour of overseas companies increased in the community.

However, others in the area contested the legitimacy of WongWong group's land claims, demanded a share of its logging incomes, and spread rumours of it cutting 'private deals' with Sovereign Hill. The landowner company directors lost authority and became increasingly alienated from their constituents and kinsmen amidst the accusations that they had been bought off by the logging company. Logging proceeded as a function of the temporary balance of allegiances amongst the jumbled group of customary landowners and Sovereign Hill.

The outcome was that local landowners who collaborated with the logging company were temporarily empowered in their relationships with other villages, some modest cash flowed and some useful awareness was spread. Meanwhile the logging company could (whether intentionally or not) easily manipulate struggles between local factions for its own benefit. The resulting power struggles resulted in various social, economic and environmental costs being locally borne whilst the lion's share of the benefits derived from the log exports accrued to the national government and the logging company. As with other such deals in PNG, the main challenge in future is to foster forms of social organisation and political culture at the local level that can more effectively safeguard the interests of local communities rather than just advancing the agendas of a few local big men and aspiring politicians.

Source: Leedom, 1997

6.2 Urging greater democracy – new models of community organisation in forestry

Under the government's new policy regime in the mid 1990s, representative bodies were expected or encouraged to perform several functions that served the social, rather than commercial, aims of communities in the development of large-scale forestry projects. These included:

- Negotiating (or renegotiating) the basic conditions of project development, especially the priorities for social and economic infrastructure
- Formulating and applying rules for the distribution of project revenues earmarked for the benefit of the entire community
- Monitoring the compliance of developers with timber permit and environmental planning conditions, and seeking compensation for any breaches of such conditions
- Lobbying the government or the developer for greater community access to project employment or business development opportunities
- Resolving disputes between resource owners over the progress or impact of the project
- Organising activities designed to promote the regeneration of forests which had already been logged (Whimp, 1997)

It was recommended that all such activities should be the responsibility of landowner associations established under the Associations Incorporation Act, whose membership would be restricted to land groups established under the Land Groups Incorporation Act. These incorporated land groups might also participate as shareholders in reconstituted landowner companies that would still be dedicated to the pursuit of those commercial objectives from which landowner associations would be legally excluded. This model of the mutual relationship between the three types of community organisation had been pioneered in the petroleum development sector (specifically, the Kutubu project).

In practice, the government has made little progress in the application of this model of community involvement in forestry, because it simply does not have the resources necessary to organise the formation of all these representative bodies. Communities in those concessions granted under old forestry legislation have largely been left to their own devices, and those of their respective landowner companies (Filer, 1998).

The forest policy reform process catalysed by the Barnett Report has thus aimed to foster new forms of community organisation, stressing accountability and democracy, and capable of entering into effective relationships with companies. However, rural communities have a long history of resistance to imposed values, and the government's failure to negotiate with either the forest industry or communities in developing these measures has resulted in limited uptake.

6.3 Problems of representation and scale

Perhaps the most important aspect of the local institutional problem is the difference in the scales of representation needed. The argument that landowner companies have shown themselves to be ‘undemocratic’ or ‘unrepresentative’ forms of organisation tends to conceal the problem of establishing any kind of democratic decision-making body with widespread popular support at the scale at which landowner companies have sought to operate – i.e. large timber concessions.

Customary social groups, or ‘clans’, are normally very small, containing less than a hundred members, which usually means that decisions require the consent of less than twenty adult men. This is the typical scale, and also the typical limit, of ‘traditional consensus’ on such matters. In a timber concession of any considerable size, we might expect to find ten or twenty traditional political communities, and maybe ten times that number of customary land groups (Filer, 1998). Imagine a project-wide landowner association in which each of these groups had its own representative on the central executive. It would be hard enough to organise a meeting of so many individuals, let alone expect this meeting to take tough but sensible decisions.

Given the practical problems of land group incorporation, and the deficiencies of landowner companies, what improvements could local-level governments bring? Despite recent efforts to re-establish effective local governments in Papua New Guinea, there are several problems in the way of their effective representation of community interests in forestry. The boundaries of timber concessions have not been drawn to match the boundaries of local-level governments, but to fit the forester’s definition of a commercial timber resource – and concession size has been enlarged in recent years in order to promote the sort of long-term investment that will make investors think about sustainability.



6.4 Companies and communities – going their own way

The logging companies’ Forest Industry Association maintains that the emphasis of government’s policy reform process has been to drive a bureaucratic wedge between them and the communities, and that those landowner companies which have survived this process, and even begun to show signs of functioning quite effectively, are now threatened by the new institutional structures proposed by government.

Much more needs to be done to make landowner companies more efficient and more accountable. In this, the log export industry is prepared to take landowner companies at face value, and let the directors settle their own accounts with rural communities. NGOs however, are led to conclude that large-scale industrial forestry is socially unsound, regardless of any steps taken to improve its economic or environmental sustainability, because no form of community

organisation can represent the interests of all the people grouped in a single timber concession. Yet communities are going their own way too. Recent analysis shows that the rural constituency for more sustainable development only forms through the process of ‘resource development’, as people learn from experience (Filer, 1998).

Can the state or NGOs fast-track greater democracy and sustainability in arrangements between companies and communities? It seems that the state cannot make a stronger claim than custom to the political task of defining the local interest. The state or NGOs may deploy their technical capacity to supply communities with resource management expertise and knowledge, yet refrain from imposing its judgement of how their commercial, social and environmental concerns should be balanced (Taylor, 1997). In adopting a supportive rather than coercive role, the state is more likely to mobilise landowners to monitor the timber industry themselves – a challenge to which communities are increasingly showing signs of rising.

6.5 Lease, lease-back system – successful in oil palm, potential for timber

A major obstacle to investment in forest plantation or other land development in PNG is the difficulty of securing land. As is clear from the section above, there are no quick-fix solutions in the search for methods of determining the use of customary land in Papua New Guinea. Popular resistance to anything that smacks of customary land registration is strong, despite the fact that communities in many parts of the country recognise the need to formalise their titles and the land use options in some way. Therefore there is a shortage of land on which to base development initiatives involving investors from beyond the immediate community itself.

Adding to this problem is a cumbersome land administration system and a lack of formal market for small pieces of land. The central role of land ownership in Melanesian culture suggests that the challenge is to develop options that are compatible with both commercial development and local traditions.

However customary land is successfully being made available for the expansion of the production of palm oil. This involves a lease, lease-back arrangement, whereby the government leases land from the customary owners and then leases it back to a legal entity formed by members of the same clan. This usufruct can be formally mortgaged by the customary owners.

The state leases a defined area of land from the customary landowners for an agreed period and then issues back to the landowners a lease, registered under the *Land Registration Act*, for the same period of time less one day. The customary landowners, or those nominated by them, now possess a negotiable title over the land and can negotiate with a third party (i.e. bank, company or

individual) to arrange finance for development, or to sub-lease on whatever terms and conditions are agreed upon. At the expiry of the term of the lease by the state, the land reverts back to the customary landowners.

The *Land Groups Incorporation Act* enables the landowners within a group, sub-clan or clan, to form a single legally constituted body. In taking a lease over the land, the government formally recognises this Incorporated Landowner Group (ILG) as the lessor. In leasing the land back to the ILG the state foregoes the use rights to the land and transfers them back to the landowners. The ILG is then free to sub-lease directly to a developer. The arrangement allows the developer to invest in a joint venture over relatively large areas.

Steps in developing a lease, lease-back arrangement are as follows:

- Identification of the project land, survey of boundaries and preparation of survey plan
- Preparation of Land Investigation Report by Department of Lands
- Incorporation of landowners under the *Land Groups Incorporation Act*
- Execution of Customary Land Dealing (lease from landowners to the State)
- Issue of Special Agricultural Lease to Incorporated Landowner Group (ILG) in accordance with the directions of Customary Land Dealing
- Sub-lease of Special Agricultural Lease from ILG to developer (private company)
- Registration of sub-lease and agreement by the Registrar of Titles

In the lease, lease-back agreements in the oil palm estates of New Britain, the company that gains the sub-lease for development gains free, unfettered access to the subject land for the term of the lease. This allows the developer to construct roads, drains, and culverts, to plant oil palm and to harvest the fruit for the term of the lease. All costs involved in the incorporation of local land groups and registration and issue of the Special Agricultural and Business Lease are borne by the company. The rent offered by the company is Kina 50 (about US\$ 20) per hectare paid quarterly in advance, a royalty of 10% of the farm gate price of fruit harvested from the lease area and a share offer of 50 ordinary fully-paid shares per planted hectare.

The main reason companies wish to enter into lease, lease-back partnerships with communities is to secure use rights over plantation land. The investor has the security of knowing that it holds an official sub-lease over a specific parcel of land from the legally recognised traditional landowners. Moreover, the developer's business transactions are facilitated by dealing with a single legal entity, the ILG, under a formally approved agreement and sub-lease.

The main advantages to landowners of lease, lease-back in the case of oil palm are the attractive level of cash flow and the low labour opportunity cost. The landowner receives lease payments on his land even before the oil palm begins to yield. And, because landowners receive a royalty in proportion to production, it is in their interests to afford the company freedom to manage the

plantation. The financial and lease arrangements are directly between company and landowner and are clear-cut.

The system used for oil palm plantations could well be applied to timber. A sub-lease of a registered Special Agricultural and Business Lease might provide an investor with sufficient security of tenure and access to make plantation forestry feasible. The operator would size up the viability of the arrangement in terms of the rent payable relative to the expected returns from, and costs of, growing and harvesting the timber. The landowners' main criterion would be the opportunity cost of putting land to plantation timber rather than to other uses.

Box 26 Landowner royalties and outgrowers – Nara/Gogol

In the Jant Limited wood chipping operation in Madang, land is leased by the state from the customary landowners under the Nara/Gogol Timber Rights Purchase Agreement, and Jant sub-leases the land from the state for an annual rental of K1 (US\$ 0.40) per hectare per annum. The company also pays the landowners a royalty of 2.5% of the standing value of each tree harvested. Leases are for terms of 30 years – based on the harvesting cycle of *Eucalyptus deglupta*, which is 15 years. Acacia species, mainly *Acacia mangium*, are now grown in a shorter rotation cycle of eight years, shortening the time for a return on investment. The Jant system has been in place since the early 1970s and the company now holds a large number of such leases aimed at an operational target of around 10,000 hectares.

Gogol Reforestation Company Limited, a subsidiary of Jant, attends to reforestation of the operator's sub-leases. The state owns 49% of the company and appoints two directors to the board. It has been the company's policy to involve the traditional landowners in its operation. Reforestation is sub-contracted to landowner companies. K40 (US\$ 16) per hectare is paid for hand maintenance for the period from planting up to year five, and K20 (US\$ 8) per hectare for minor maintenance from year six to harvest. Reforestation costs the company K1,000 (US\$ 400) per hectare plus maintenance and other surveillance costs such as fire watch.

Additionally, Jant sponsors a landowner outgrowers programme. Village committees identify and recommend suitable applicants to grow trees on their customary land. The applicant to be successful must meet certain company criteria based on diligence and application without supervision. Once selected the outgrower is provided with seedlings and a small loan to cover the cost of tools and other inputs. The basic objective is to develop a fully planted area of 8 ha. The outgrower plan is to plant and maintain one hectare per annum. In the ninth year the first hectare of trees is felled and the outstanding loan is repaid to the company without interest from the grower revenues. The first hectare is then replanted and the process continues annually. The successful outgrower or his successors enjoy a continual annual income for as long as the cycle is followed. The large number of leases involved might be simplified and outgrower organisation strengthened though a group incorporation approach. Nevertheless, it is a successful development that has continued to work satisfactorily over nearly 30 years.

The Jant Limited wood chipping operation in Madang demonstrates that returns can be sufficiently attractive to landowners to commit their land. The lease, lease-back arrangement might further improve the Jant deal in that it would give the developer greater security and better facilitate business transactions with a large number of landowners.

However, there appear to be impediments to the application of the lease, lease-back joint ventures in plantation forestry. The ability of any developer to make rental payments to landowners is constrained by the length of time required by a forest to mature. Landowners prefer quick returns and are more likely to support projects on customary land for the cultivation of coffee, cocoa, oil palm, sugar cane or other faster growing crops.

Nevertheless, given the massive potential and need for private sector investment in forest management in Papua New Guinea, the lease, lease-back mechanism may hold an important key. The benefits of clear tenure and clear financial gains to both parties mean that the instrument also has potential for facilitating partnerships in sustained yield forestry and forestry conservation.

Ghana: Social responsibility agreements

“A verbal contract isn’t worth the paper it’s written on.”

Samuel Goldwyn,
Goldwyn’s Law of Contracts

Most land in Ghana is owned not privately or by the state but under customary tenure, subdivided into areas presided over by individual traditional leaders known as stools. However all forest and timber resources on the land, other than planted trees, are the legal responsibility of the state, represented by the Ministry of Forestry. The considerable tropical forest resources of Ghana are thus logged under a grant of timber rights from government. Until the late 1990s, payments from logging concessions were generally sporadic and generally benefited only the traditional chiefs.

During the 1990s, Ghana undertook a complete review and update of forestry policy aimed at more equitable and sustainable management of forest resources. One outcome was new legislation in 1998 that requires logging companies operating on customary land to negotiate Social Responsibility Agreements with local communities (not just the chiefs). These Social Responsibility Agreements (SRAs) differ from most of the company-community partnerships presented here because they are legally enforced and overseen by national government. Nonetheless they are worth considering in some detail as they provide a useful model for more closely regulated approaches to managing deals between forestry companies and local communities.

The main purpose of SRAs is to oblige timber companies to operate in a socially responsible manner with due respect for the rights of land-owning communities. These include the right to certain forest products, the right to be consulted in the management and exploitation of their resources and the right to maintain cultural sites and practices without disturbance from the company. The process of negotiating the SRA provides an opportunity for communities, or at least community leaders, to specify the conditions under which contracted timber companies can operate on their land. In addition, the SRA provides a means for the community to benefit directly from the exploitation of forest resources, via a legal requirement for the company to invest a negotiated proportion of profits into community development projects.

Another purpose of SRAs is to contribute to a more transparent and equitable system of allocating timber concessions in Ghana. Under the new law, anyone wishing to harvest timber must secure a Timber Utilisation Contract (TUC) for a specific area. The TUC system allows for competing bids to be compared according to explicit criteria, as well as for ongoing monitoring of the performance of the companies according to a variety of indicators including the



performance of their SRAs. To date about 42 TUCs covering an area of over 290,000 ha have been granted and ratified under the new timber rights allocation system. All of these have been required by law to draw up SRAs with local stool chiefs. This chapter reviews experience with Social Responsibility Agreements, based on an assessment by Yeboah (2000).

7.1 Code of conduct and social obligations

An example of an abridged actual SRA is given in Box 27. Essentially, each SRA contains two key sections: a code of conduct and a statement of social obligations. The code of conduct describes the manner in which the timber company should operate to ensure that all timber operations are conducted with due respect for rights of the communities inside or adjacent to the harvesting area. It includes provisions to ensure respect for local customs and beliefs, local infrastructure and local livelihoods. Usually the code of conduct also includes analogous provisos that local people should allow the company to operate without hindrance as long as the terms of the SRA are being met.

The conditions listed in the code of conduct of an SRA may include agreements over a number of technical and institutional factors, such as:

- Timing of timber harvesting with agricultural activities
- Specific logging techniques to minimise crop damage
- Compensation rates for damage to crops
- Respect for cultural norms such as taboo days
- Processes of consultation with communities over the siting of access tracks
- Assurance of minimal disturbance to sacred sites, existing community infrastructure (e.g. bridges), water collection points and prime areas for gathering non-timber forest products
- Tending fees to be paid to individual farmers directly before felling commences
- Protection of drinking water sources
- Assurance of prompt payment of royalties for trees felled
- Employment of local people rather than outsiders as casual labourers

It should be noted that nothing in an SRA overrides the right of a farmer to veto felling on his or her fields (unless this is a specific provision of the agreement, with consent of all the farmers in the area). The code of conduct could also specify any recompense that should go to the communities in the case of damages to the sustainability of important forest resources such as bushmeat or other non-timber forest products.

The statement of social obligations pledges specific contributions to community development. Generally these are infrastructural, for example the construction of roads, schools, clinics, electricity lines or boreholes. Support might be in the form of a community development fund financed from the exploitation of timber in the area, or otherwise a commitment to supply materials such as lumber, cement, roofing sheets or furniture. The SRA usually specifies the financial value of the contribution. The maximum cash value stipulated by law is 5% of the total accrued stumpage fees from the TUC area.

Box 27 Social Responsibility Agreement between Bibiani Logging and Lumber Company Limited and Omanhene of Sefwi Wiawso Traditional Area (abridged)

1. This agreement holds if the company is granted a Timber Utilisation Contract and is allowed to operate in Bia North Tributaries Forest Reserve, which falls under the Stool of the Omanhene.
2. The company covenants to assist the Sefwi Wiawso Traditional Area with the following development project:
 - a. Resurfacing of the roads in the Sefwi Wiawso township
3. The company shall provide one or more of the under-listed social amenities, as the situation may demand, to the land-owning communities covered by its Timber Utilisation Contract operations:
 - a. Construction of 4 boreholes
 - b. Resurfacing of the roads in the communities
 - c. Construction of 2 KVIPs (Kumasi Ventilated Improved Pit latrines)
4. Code of Conduct
 - a. The various communities concerned shall be made known in clear and unambiguous terms to the company all cultural norms with respect to sacred grounds, streams, groves, trees, shrines, taboo days, etc.
 - b. The company having been fully and adequately informed of all such norms (4a. above) shall show unquestionable respect for the same, and shall endeavour to perform all the necessary customary/traditional rites as determined by the chiefs and people.
 - c. The company shall at all times consult the communities and the Forestry Service on matters with respect to general environmental and biodiversity protection.
 - d. The company shall respect the rights of access of local communities to Non-timber Forest Products for domestic use on terms determined by the Ghana Forestry Service.
 - e. Location of logging routes and sidings shall be done in consultation with the local communities and the Forestry Service.
 - f. Where the company's operations should accidentally cause any damage to already established infrastructure the company shall endeavour to restore same to the previous or better condition/state.
 - g. The company shall endeavour as much as circumstances may permit, to make prompt payments of stumpage fees and concessions rents when such payments fall due.
 - h. The company observing and performing the terms of this agreement shall be allowed by all other parties concerned to quietly and peaceably carryout its operations in the Timber Utilisation Contract area.
 - i. A Committee comprising representative from:
 - i. The Traditional Council
 - ii. The Company
 - iii. The Forestry Service
 - iv. The Area
 - v. The Sefwi Wiawso District Assemblyshall be set up to ensure compliance of the terms and provisions of this agreement, and to settle disputes, differences, and questions which may arise in connection with this agreement.

7.2 Procedures for developing a Social Responsibility Agreement

First the local District Forest Manager (a government employee) locates and defines the boundaries of the TUC area, in consultation with traditional leaders and land-owning communities. During such meetings the purpose of SRA as part of TUC is explained and the community as a whole is asked to propose particular conditions for a future logging company's operations and their priorities for local development. These conditions and development objectives are incorporated into a preliminary document called the Timber Operational Specifications, which is included in the advertisement for tenders for the TUC, and also forms the subsequent basis for SRA negotiations. Logging companies then submit bids for the TUC. These are evaluated by a governmental Timber Rights Evaluation Committee, which short-lists the five best proposals. The successful candidate is chosen via a non-financial selection procedure based on the applicants' proposals for provision of social amenities and reforestation.

The company that wins the TUC must then negotiate the terms of the SRA with the appropriate land-owning community or communities. At present the stool chiefs are the official representatives of the land-owning communities and have the authority to sign the agreement with the TUC holder, though the law stipulates that benefits are to go to the people of the land-owning communities and not to the office of the stool chief. A common feature of emerging SRAs is in fact the establishment of a new committee to represent the various stakeholder groups involved in the TUC (Box 27).



7.3 Local perceptions of SRAs

To get a sense of what SRAs mean to members of communities in areas where timber companies are operating under the new legislation, the Collaborative Forest Management Unit of the Ministry of Land and Forestry has recently carried out an interview survey in three areas: Diaso (Central Region), Nkoranza (Brong Ahafo Region) and Offinso (Ashanti Region). These are all areas in which timber companies have been operating for some time and the implementation of SRAs is only recently underway. Therefore interviewees were asked mainly about their previous experiences with timber companies and their knowledge of and recommendations for the developing SRAs.

Residents of the three areas in general saw little positive impact from the operations of the logging companies in their areas. A common opinion was that any profits returned to the area, through ad hoc agreements with the company, had gone to the stool chief or elders rather than to ordinary residents. Some people conceded that they had benefited to some extent by charging timber contractors fees not authorised by law. They had also benefited in kind to some extent, through receipt of building materials like cement, roofing sheets and electricity poles, construction of roads, and access to employment.

People had plenty of ideas as to what was most needed in the local area, emphasising infrastructural projects such as supply of electricity and pipe-borne water, but also mentioning the need for credit funds for education and agriculture. In addition to the types of conditions noted earlier for the company's code of conduct, residents' frequently suggested provisions included: participate in cultural festivals, be neutral in local politics and stay away from NTFPs to let local people have access to them.

Asked about the administration of the new SRAs, a commonly mentioned problem was the lack of institutional capacity within communities. Interviewees were clear that new institutions should include community representation other than traditional leadership. Some interviewees in Diaso and Offinso were concerned about how conflict would be resolved should either side break the terms of the SRA and were keen for the court to be brought in at an early stage as the custodian of the agreement.

7.4 The outlook for SRAs in Ghana – and elsewhere?

Social Responsibility Agreements are at an early stage in Ghana, yet to go through iterations of experience and modification, and thus the general observations that can be made about the policy are speculative rather than based on experience. Of course it is possible to predict where future difficulties within the system might arise, but first it is worth making the point that the policy itself is an innovative attempt to realise broad ambitions of socially responsible and sustainable timber production. Previously communities received benefits from logging operations on at most an ad hoc basis – the odd job or magnanimous contribution to local infrastructure. Now they can expect at least a basic sustained level of direct material rewards in addition to control over how the company operates on their land. In return the company can anticipate more convivial relations with local people and hence more predictable and less expensive operations.

Many other countries may be contemplating similar mechanisms to encourage better social responsibility in private sector forestry, and will no doubt be following experiences in Ghana with great interest. Some of the fundamental features of the content and process of SRAs are very positive:

- Minimum standards for social responsibility by logging companies are clearly laid out and backed by legislation
- The process of tendering for timber production areas is transparent, based on a simple scoring system
- Tenders are judged in part according to projected contributions to local livelihoods and values rather than projected contributions to government revenues
- Agreements are negotiated and signed directly between companies and communities, with government confined to a clear refereeing role as monitor and evaluator

The basic format and process of SRAs have been designed to be simple enough to be implemented fairly quickly and widely without stalling due to insupportable expense or misunderstanding. Modifications to the approach will be needed as lessons are

learnt. Some of the likely difficulties can be foreseen already. Perhaps the most important is that there is no sharing of risk between the company and the community. For the company, the fact that payments towards community development projects are determined as a fixed sum based on projected profit, rather than as a percentage of actual revenues, means that the company risks paying more than the stipulated 5% of profits should timber prices fail to meet projected levels. This is one aspect of the policy's rigidity at present: there is little scope for re-negotiation and adjustment to the terms over time. Hopefully, as SRAs become more sophisticated, more flexible systems for the company to calculate and deliver payments should arise, alongside capacity for re-negotiation as need arises on either side.

Meanwhile, for the community, there is no specific link between their own inputs and the benefits they receive. Thus the system is highly dependent on any one community's capacity for collective decision-making and action – for the community to keep its side of the bargain not to disturb logging operations or poach timber, there must be wide-reaching consensus that the deal is worthwhile. At the moment it is not clear how SRAs will ensure equity among community members in terms of whose values are represented in the code of conduct and the proposed community development projects, who will be the real beneficiaries of the development projects and other outcomes and who will have to invest time, skill and effort in keeping the SRA alive.



Several other aspects of how SRAs will fare in practice are still unclear. Relevant questions might include:

- Do the various parties have sufficient capacity to establish and maintain the terms of the SRA? Apart from the issues of communities' institutional capacity raised above, there are also issues of technical capacity, such as whether companies or forestry officials are in fact able to make accurate predictions of yields from TUCs.
- What will be the transaction costs for each side and will they justify the arrangement? For example, will the company need dedicated staff? Will community members be able to participate to their own satisfaction without impinging too heavily on other tasks and pastimes? What about the costs incurred by third parties, in particular the Ministry of Lands and Forestry?
- What will happen in the case of serious dispute? Are courts the most likely (or most appropriate) bodies for either side to seek redress? Is the wording of the SRAs specific enough to support legal debate and settlement?

Some policy makers in Ghana have already suggested that ultimately local people should become shareholders in timber harvesting contracts, using the value of their social responsibility as equity in joint ventures. It has been argued that enabling communities to become share-holders would increase both their returns and their commitment. Development of such future scenarios will hopefully guide SRAs towards greater equity of inputs and rewards between the partners, as well as within the community. In the mean time, the emerging SRAs are a major first step towards more equitable and sustainable timber production in Ghana and constitute the beginning of a useful learning process in Ghana and beyond.

Canada: First Nation forestry contracts and joint ventures

“There are also a few among us who believe, often in good faith, that making deals at the cost of rights is in their people’s interest... At every table, at every negotiation, at every settlement discussion arising out of a court action, at every treaty implementation process, we have to be vigilant that we are not being forced to exchange our peoples’ long term rights for short term gains.”

Chief Matthew Coon Come, speech at 2001 Assembly of First Nations

Canada has long been the world’s largest exporter of forest products. The country’s highly competitive forestry sector has given rise to a huge variety of innovative business arrangements. For example, many partnerships now exist between well-established forestry firms and emerging Aboriginal (Native American) enterprises. These partnerships are on the whole better developed than their equivalents in other countries, and thus provide a good working guide to the various options and best practice in company-community partnerships.

Native American people make up only about 4% of Canada’s population, but are the fastest growing group among the country’s rural inhabitants. The various Native American clans are known as First Nations and have rights over customary lands. The precise conditions of land and resource tenure in these First Nation reserves differ among provinces, and are also subject to an ongoing process of legislative review. About 80% of the nearly 2,500 reserves are in forest areas, with an estimated 1.4 million hectares (44%) of the total reserve area under productive forest (Smyth, 1999). Clearly, there is enormous scope for forest-based enterprises among the First Nations, and conditions in recent years have primed the development of both product-based and service-based industries. This chapter draws on a variety of sources to review the recent experiences of First Nation partnerships.

8.1 The rise of small-scale First Nation forestry companies

The kinds of deals made between forest companies and communities in Canada differ from most of the examples given for other countries in one important respect: the communities themselves form registered companies. Some of these



companies represent entire First Nations. Usually most, if not all, clan members are shareholders, and decisions are made by boards that usually comprise a mix of traditional leaders and elected community representatives. Although these companies have the same legal status as any other forestry company in Canada, they tend not to be oriented purely towards maximising profit, but instead seek to uphold the social, cultural, ecological and ethical values of the First Nation that they are owned by. In addition to these First Nation share-holding companies, Canada also has several hundred forest-based firms owned by smaller groups of, or individual, First Nation people. The vast majority of these are small enterprises with five or fewer employees (Institute on Governance, 1998).

The scope and number of First Nation forestry companies grew during the 1990s, thanks mainly to the policy environment created by the national and provincial governments. Mindful that Native Americans continued to be a disadvantaged group, with lower levels of education and employment than average for the country, the Canadian government invested heavily in promoting livelihood opportunities for First Nation people. In 1996 a five year initiative called the First Nation Forestry Program (FNFP) was launched jointly by the Canadian Forest Service (Department of Natural Resources) and the Department of Indian Affairs and Northern Development. Box 28 shows the four objectives of the FNFP. The budget over five years has been in the order of Can\$ 25 million (US\$ 16 million). A number of success stories are beginning to emerge as First Nation companies gain financial independence from the programme.



Emerging First Nation forestry businesses also have access to a great deal of government-sponsored support beyond the FNFP. The Aboriginal Business Canada initiative has provided over Can\$ 300 million (US\$ 190 million) as well as non-financial support to fledgling Native American enterprises. The Business Development Bank provides loans and management services to small and medium sized businesses and has activities geared specifically towards First Nation enterprises, such as financial training for 'youth entrepreneurs'.

Another important factor that has encouraged the development of forestry enterprises over the same period has been the settling of land claims brought to court by First Nations. Some communities have found themselves with windfalls of large sums of money – several million dollars – that have provided the financial capital to establish community-based forestry companies. In the late 1990s a total of Can\$ 300-400 million (US\$ 190-250 million) per year was disbursed to First Nations in compensation for land claims (Institute on Governance, 1998).

Box 28 Objectives of the First Nation Forestry Program in Canada

1. To enhance the capacity of First Nations to operate and participate in forest-based businesses and increase the number of long-term jobs in forestry for First Nation members
2. To increase First Nation cooperation and partnership
3. To investigate the feasibility of trust funds, capital pools, or other similar mechanisms for financing First Nation forestry development, and to enhance the capacity of First Nations to manage reserve forests sustainably
4. To enhance the capacity of First Nations to sustainably manage reserve forests.

Source: Smyth, 1999

8.2 Motives to enter partnerships

The highest priority for most First Nations is local employment: levels of unemployment are as high as 80% in some First Nation reserves. While Native Americans make up a disproportionately high percentage of the forestry workforce in Canada, their skills base remains low. For example there are only a handful of professional Native American foresters. First Nation forestry companies see partnerships with external companies foremost as a route to securing jobs for community members, and getting access to training and experience to build the human resources within their own businesses. Other important motives for entering into partnerships are to establish stable markets for products or stable sources of raw materials, to gain use of technical expertise (or often simply machinery) and to share the risk of borrowing start-up capital (De Beer, 1998; Smyth, 1999).

From the external companies' perspective, partnerships with First Nation companies make sound business sense. They benefit indirectly from the financial and logistical support that the government supplies to emerging Native American enterprises, so that running costs can be cut to an extent not achievable in business arrangements with non-First Nation companies. Also, even without government support, firms looking for partners to enter contracts or joint ventures will be attracted by the low overheads, and advantages of location, that First Nation companies are often able to offer (De Beer, 1998; NAFA / Institute on Governance, 2000).

Sometimes there are more immediate reasons for setting up partnerships with First Nation communities. For instance, depending on provincial laws of resource tenure, logging companies may need to buy concessions from the residents of a forested reserve. Some companies are also motivated by prior obstacles and threats from First Nation interests. With the increase in recognition of Native American rights over land and resources, more logging companies have fallen foul of legal actions brought by residents of reserves. In some cases these disputes have become physical (road blockades etc.) or even violent. Developing good relations with First Nation communities, via partnerships or otherwise, is a sensible move for logging companies wishing to maintain operations without hindrance.

The crucial third party in company-community forestry partnerships in Canada is, as already emphasised, the government. The FNFP and other government initiatives view partnerships tactically in much the same way as the First Nations themselves do, as a means of improving livelihood opportunities and employment. One advantage that the government sees in partnerships is that they open livelihood opportunities for Native Americans outside reserves as well as developing on-reserve businesses.

At a broader strategic level, the government is motivated to promote partnerships because of prevailing national and international trends in governance of natural resources (Beckley, undated; Institute on Governance, 1998). Civil society in Canada is actively involved in environmental issues, and over the years has pushed for greater accountability and a more multi-use, ecosystem-based approach in forest management. These concerns complement those of the First Nations, and support the development of partnerships for holistic planning and management of forests. Internationally there has been pressure for greater acknowledgement of indigenous rights, as expressed for example in the resolutions of the Convention on Biodiversity (CBD) and the certification criteria of the Forestry Stewardship Council (FSC).

8.3 The gamut of business arrangements

Partnerships between First Nation forestry companies and external counterparts comprise a wide array of business arrangements, from large-scale co-investment to informal mutual assistance, and an even wider array of activities, including silviculture, logging, processing, manufacture and support services. A recent thorough overview of the industry recognised that First Nation partnerships fell into a typology ranging from formal co-financing arrangements, in which profit was the chief motive, through to informal agreements over specific aspects of business, such as employment or infrastructure. The typology – a blend of structure and function – is shown in Table 9.

As well as the officially recognised types of deals and partnerships shown in Table 9, Canadian forestry companies use other tactics to promote good working relations with First Nations. Many companies have a policy of ‘bending the rules’ to make business easier for First Nation partners, for instance by easing the terms of loan repayments. Other enabling business practices are breaking contracts into sub-contracts to allow newer enterprises a better chance to compete, assisting in the preparation of bids and maintaining databases of First Nations firms and the services they offer. As part of its programme of support for First Nation partnerships, the Canadian government is prepared to back up these kinds of innovations when initiated by the private sector. An interesting example is an ‘economic development fund’ through which a large forestry firm is prepared to offer up to Can\$150,000 (US\$ 95,000) per year to First Nation entrepreneurial projects, as long as the funds

Type of partnership	Description (and numbers to date)	Example
Joint venture	Shared ownership of business entity (14)	Eco-Link, a logging and silvicultural business, is owned 50-50 by Lignum Ltd and the Esketemc First Nation.
Co-operative business arrangements	Joint strategic objectives, but not ownership, to achieve mutual benefits (6)	The First Nation company Kaska Forest Resources guarantees a long-term minimum volume supply of timber to South Yukon Forest Products, for a preferential price.
Forest services contracting	Contract to provide specific service (13)	Horse Lake First Nation has harvesting contracts with Ainsworth and Weyerhaeuser.
Socio-economic partnerships	Arrangements to strengthen capacity among First Nation (7)	Carrier Lumber has an agreement with the Aboriginal communities of Trout Lake and Peerless to create local employment.
Forest management planning	Shared decision-making regarding forest management (6)	Al-Pac, operator of the world's largest single-line pulp mill, has an Aboriginal Affairs Resource Team to liaise with First Nations on land use planning.

Source: NAFA / Institute on Governance, 2000

are matched equally by national or provincial government. Repayment of loans is required only from successful projects (Institute on Governance, 1998).

First Nation partnerships with mainstream forestry firms now cover a wide variety of forest-related activities. Of course, since Canada is a major producer of timber, there are plenty of examples of contracts between tree owners and tree harvesters, in which the First Nation and the external company play either role. Another spectrum of joint ventures, cooperative business arrangements and forest service contracts are concerned with downstream processing of wood. Within these kinds of partnerships in Canada today, the operations undertaken by First Nation companies include construction of log buildings, finger-jointing, manufacture of laminated poles and beams, and other value-added secondary processing. Other smaller operations harvest non-timber forest products, one of the most famous of which is maple syrup. First Nation companies also hold contracts for forest services such as haulage, road building, brush clearance and fire control, as well as forest-associated industries like fish-farming and eco-tourism.

Finally, some First Nation forest companies have branched into planning and managerial services. For example, Cree-Tech Inc provides Geographic Information Systems (GIS) services for several partner companies; their comparative advantage is being able to design information systems that are sensitive to Native American land use values. An alliance of nine First Nations in Saskatchewan has diversified even further. The Meadow Lake Tribal Council, as it is known, has a sawmill joint venture with Miller Western, a transport agreement with Weyerhaeuser, and various contracts for logging, silviculture and reforestation services (De Beer, 1998).

More recently the Tribal Council has entered into a more unusual partnership, a joint venture with the Mesquito indigenous communities of Nicaragua, whose representatives they met during a North American Free Trade Agreement (NAFTA) round table in the early 1990s. In 1996 the two sides, both represented by community-owned corporate entities, pooled equity to form Makwa Inc. More recently Miskito Coast Ventures has been set up as the commercial arm of the joint venture, operating not only in reforestation and other forest projects, but also in eco-tourism, coffee export and gold panning (Iron and Mazuren, 1997).

8.4 Emerging pitfalls and opportunities

With time, some forestry firms that have entered into partnerships with First Nation companies have identified some disadvantages of these arrangements. The disadvantages are mainly associated with the relative newness and inexperience of the First Nation enterprises. More money, time, effort and training may need to be invested upfront, and then there is still greater risk of business failure, because the young First Nation firms tend to remain precarious for some years. The larger forestry companies that have persevered, however, have found that building partnerships that function efficiently, on a strong basis of trust, take a great deal of time and effort to build. Industry insiders tend to emphasise the importance of communication, and particularly communication between individuals rather than arbitrary organizational representatives (Box 29).

First Nation company partners have also found pitfalls that have only become apparent after time. As mentioned earlier, one of the major community goals has been to improve employment and training for residents of reserves. Certainly there have been great successes in this area, but in some cases there has been the unanticipated negative spin-off that better trained staff demand higher salaries and the company finds itself no longer able to make attractive offers in the highly competitive market for forestry contracts. A more widespread problem is that First Nation land and resource tenure rights remain weak. Subsequently, long-term forestry initiatives rely on a substantial level of trust in local government – a relationship that can flounder. For instance, the Forest Service in British Columbia supported a Traditional Use Study in Stoney Creek Reserve, but in late 2000 granted a logging licence to an external

Box 29 Experience of Canadian forest industry staff with First Nation partnerships

One informant reflected that there is often a 'ladder of cooperation' – "communication isn't always great in this province, sometimes you start with an icy silence; and there's lots of listening... you find out a lot about things you've been doing that the First Nation doesn't like." The interviewee stressed that for communication to be effective it has to be a "two-way street."

Someone also noted that even facilitated communication is needed, even more than written agreements – "most First Nations people don't want to look at a lot of paper; they would rather sit and talk, building personal relationships – and this is not far off what most people in the [forestry] business prefer."

Source: Institute on Governance, 1998.

company. Local leaders of the Saik'uz First Nation were outraged at what they saw as a breach of agreements over land use achieved by the Traditional Use Study (Canada NewsWire, 2000).

A big challenge to some forestry joint ventures is ecological sustainability. A famous example is the Iisaak joint venture logging operation between Nuu-chah-nulth Tribal Council and the Macmillan Bloedel forestry company at Clayoquot Sound, Vancouver Island. After long-term action by environmental protestors, the joint venture arose as a means of compromise among stakeholders, and now the management area is divided into a UNESCO Biosphere Reserve and a certified sustainable logging zone (see Iisaak, 2000).

While problems with the stability of new First Nation enterprises, especially in the face of fluctuating markets and stiff international competition, have meant that many partnerships have collapsed fairly fast, others have thrived and have led to new opportunities for both partners. An interesting example is Babine Forest Products, a joint venture between two private companies, Weldwood (58% share) and West Fraser (32%) along with the Burns Lake Native Development Corporation, owned by five local First Nations, operating as a subsidiary company called Burns Lake Native Logging (BLNL). This is the oldest First Nation joint venture in Canada, established in 1975. Originally BLNL was set up as a means for First Nation people to get training, but over time capacity has expanded so that today BLNL does 20% of the joint venture's logging. Babine has developed into a leading operator in British Columbia, with among the highest recovery rates in the state, and a staff of 500 (De Beer, 1998; Babine, 2001).

In 1997 Babine was rewarded with an Enhanced Forest Management Pilot Project, a substantial governmental research grant to explore and improve on a variety of factors of forest management, including the functioning of partnerships with First Nation groups. This project has been successful in terms

of both research findings and improvements in Babine's operations and has now been extended till 2004. Most of the current cycle of research is focused on technical issues – from genetic improvement to decision support systems – to feed into an overall forest management strategy for the province.

The Babine and Iisaak joint ventures illustrate the ways in which productive partnerships can grow and diversify. It also gives another illustration of how the Canadian government has aided the development of these kinds of forestry partnerships through considerable financial and other support. The test now for partnerships between First Nations and the forestry industry in Canada is how well they weather the withdrawal of subsidies and are able to build economic, institutional and ecological sustainability.

Taking stock of themes, impacts and trends in partnerships

**“Only strength can cooperate.
Weakness can only beg.”**

Dwight D. Eisenhower

In this chapter we aim to bring together the evidence on whether and how company-community forestry partnerships work. We look at the impacts that the analysed partnership arrangements are having (including those profiled in Annex B), and uncover some of the intractable issues which company-community deals are yet to satisfactorily sort out.

9.1 Partnerships: substance beyond the hype?

Do partnerships deliver returns to forests, communities and companies?

Evidence suggests that even simple deals – and flawed deals – can bring net benefits to both partners and to the condition and sustainability of forests. Deals that are up and running vary from simple social responsibility spending in many countries (e.g. logging companies in Ghana and Guyana, or plantation companies in Brazil and Thailand) through arrangements in which communities contract in their land, labour or skills (e.g. India, Papua New Guinea and Indonesia) to situations where communities form their own companies or trusts as a basis for joint ventures (e.g. Canada and South Africa).

Of the six country cases considered in some detail, implementation is only in its early stages in Ghana and Papua New Guinea, but schemes in the other countries are well enough established to assess their key costs and benefits. The evidence is that many deals are delivering overall benefits to communities, companies and forests (Table 10). Even the abandoned outgrower projects in India have ultimately been a success, in that both companies and farmers have used them as a springboard for more profitable technological and market opportunities.

To be convinced that company-community forestry deals are a worthwhile option, potential participants need to make careful comparisons with the alternatives. There is hard evidence from several countries that for many small-scale farmers growing trees under partnership is more profitable in the short-term than alternative crops. In Uttar Pradesh, India, net returns from poplar are slightly higher than from sugarcane, and substantially higher than from wheat or paddy rice (see Box 18). Outgrowing eucalyptus and bamboo is a more profitable option in Thailand than competing cash crops, in spite of the fact that partner companies



Example	Community benefits?	Company benefits?	Forest benefits?
Sappi and Mondi South Africa – outgrower schemes	Cash returns compare well with alternative land uses	Supply of 10% raw materials critical to economies of scale	Planting of unused land but spread of alien tree species
Wimco and JK Corp India – farm forestry support	Evolution of competitive farm forestry	Sustained raw material supply, clones as new product	Protection against erosion but competition with other land uses
PT Perhutani Indonesia – tenant agroforestry scheme	Easing of land shortage	Cheap labour supply, less conflict	More diversity of trees and undergrowth
Babine, Canada – joint venture	Expanding share of joint venture	Development into industry leader	Integrated forest management

pay below the market price (see Box 52). In South Africa too, changing conditions in the sugar industry mean that timber outgrowing is now a more viable land use for smallholders than the longer-established sugarcane outgrower schemes. On the other hand, the general long-term stability of prices of wood fibre compared to agricultural crops is less certain.

From the perspective of companies too, deals with local growers and forest managers can prove superior to alternatives. Where local landholdings are the only source for accessing new supplies or securing existing supplies of forest products, companies can either try to work round or work with local growers and owners. Paying-off, avoiding or ripping-off communities is certainly still prevalent in some cases (e.g. some Papua New Guinea logging deals). In others, exploitative deals are inching towards greater equity (e.g. PT Perhutani in Indonesia) whilst in others partnerships make long-term sense for the company (e.g. Babine in Canada). Pulp companies are particularly concerned to secure proportions of their supplies through partnerships, e.g. Stora Enso in Indonesia secures 10% of supplies this way (Box 33), Zimboard in Zimbabwe 60% (Box 49), and Phoenix in Thailand 100% (Box 52).

So why do we not see more deals?

Globally, company-community deals remain the exception rather than the rule for forestry companies and communities involved in forest stewardship. The arrangements that do exist are, on the whole, yet to prove themselves and small in scale. But if such deals have some obvious attractions, then why are there so few of them? There are several key reasons why it does not pay to get too starry-eyed about the prospects for partnerships:

- Companies willing to pursue them are thin on the ground – markets are weakly developed or favour only piratical and predatory capitalism
- Community tenure, organisation and capability tend to be weak so that transaction costs appear huge
- Government policy is against them or has not yet cottoned on to their potential
- Banks, NGOs and other useful third parties are not making the necessary links

Broader contexts also work against company-community deals. Where markets are squeezed or marginal there is pressure for concentration of production in bigger units – large companies that can gain economies of scale rather than small complicated partnerships. Globalisation of financial capital markets discourages long-term local investment. This is compounded by the perceived risks of making deals that have to be long-term – because trees grow slowly – with farmers in developing countries who have a history of making unpredictable responses to forestry projects and have relatively little business or technical experience. Unpredictability is even higher from companies' perspectives when forest land is owned or managed by groups rather than individuals.

When a company's primary objective is to demonstrate corporate social responsibility, direct deals with communities are rarely the first avenue explored. Other demonstrable means include one-off contributions to local development, codes of conduct, third-party certification and other accountability initiatives. However, where there is also a regulatory push (e.g. clauses on social responsibility in timber management regulations in Ghana, economic policies favouring local business development in South Africa, or strengthened rights of First Nations in Canada), corporate social responsibility is becoming increasingly manifest through partnership arrangements with communities. We discuss the potential, and the limits, of corporate social responsibility initiatives in promoting partnerships towards the end of this chapter.

9.2 Impacts of deals on companies, communities and forests

Impacts on companies' objectives

Companies will only pursue partnerships if they make business sense, entailing not only profitability, but also company survival and growth. Enterprise managers may use a number of different strategies to achieve their basic objectives, and an equally wide range of criteria to judge the success of their businesses. Management gurus vary in their identification of company success criteria, but fairly consistently identify the following:

- Market standing
- Innovation
- Productivity
- Physical and financial resources
- Profitability
- Manager performance and development

- Worker performance and attitude
- Public responsibility
- Risk management

Table 12 gives some examples of how companies have used deals with community partners to achieve corporate objectives.

	Without deals	With deals
Companies lose	<ul style="list-style-type: none"> ● Inadequate supplies from restricted land and resource access ● High risk of non-cooperation or resistance from communities 	<ul style="list-style-type: none"> ● Transaction costs of developing deals too high ● Process too complicated
Companies win	<ul style="list-style-type: none"> ● Absence of pressure from communities, law or market ● Profitable to buy community land, pay off local elites and massage opinion with public relations 	<ul style="list-style-type: none"> ● Secure supplies of raw materials and/or workforce ● 'Social licence to operate' granted by communities and wider society
Communities lose	<ul style="list-style-type: none"> ● Lack of livelihood-improving opportunities in rural areas ● Lack of legal/bureaucratic permissions to develop land/trees without companies 	<ul style="list-style-type: none"> ● Become locked into dependency, or ripped off by companies ● Pushed into unwise or sub-optimal land uses
Communities win	<ul style="list-style-type: none"> ● Livelihoods not skewed by single strategies, commodities or markets ● Self-determination unaffected by company agendas 	<ul style="list-style-type: none"> ● Income generated and/or services provided where few other rural alternatives available ● Capacity for community-run development options enhanced
Landscape deterioration	<ul style="list-style-type: none"> ● Forest asset stripping by companies seeking out weak local governance ● Non-forestry land uses may be less optimal or landscape-degrading 	<ul style="list-style-type: none"> ● Inappropriate trees used or natural forest felled ● Other land uses like grazing squeezed or displaced causing degradation
Landscape benefits	<ul style="list-style-type: none"> ● Land use systems and product diversity more optimal without forestry ● Land and resource control pattern more sustainable without deals 	<ul style="list-style-type: none"> ● Reduced micro-level erosion from forest land uses ● More forest goods and services in the landscape

Table 12 Examples of effects of partnerships on company goals

Company goal	Effect of partnerships – examples
Market standing	Outgrower schemes are virtually standard in the pulp sector 60% of pulp-producing companies covered in a global survey source some of their product from outgrowers (IIED, 1996). Industry leaders – Asia Pulp and Paper, Sappi, Aracruz, Westvaco – predict that outgrower schemes will be essential to maintain their competitiveness in the future. For some companies, outgrower schemes represent their only chance of gaining raw material supplies, e.g. Zimboard in Zimbabwe and Phoenix in Thailand.
Innovation	Much creativity in flexible partnership models has been developed by e.g. Prima Woods and others in Ghana, pulp companies in Australia, timber companies in Canada and Georgia, USA – all developing models later copied by others. Technical innovations are emerging from relationships with farmers and communities, e.g. intercropping with legumes is now standard on plantations with communities in South Africa, and pulp and commodity wood users in India have pioneered new clones.
Productivity	Efficiencies stem from growers/communities bearing some costs of developing the forest assets rather than the company. By working through out-growers/communities company costs can be dealt with in the profit and loss account rather than on the balance sheet – since the liability does not rest with the company e.g. Aracruz in Brazil.
Physical and financial resources	Partnerships can generate increased access to, or security of, forest assets – the primary reason for most outgrower schemes, e.g. in Indonesia and Canada. Technical support alone can increase this security, e.g. Westvaco in USA invests in technical support to farmers in return for first option in buying product.
Profitability	Fibre from outgrower schemes may cost companies more than the average mill transfer price but still make financial sense because the proportion gained from outgrowers allows a total throughput to be achieved which enables economies of scale to be realised e.g. South Africa outgrowers. Deals may reduce costs once established – because risks can be passed on to growers.
Manager performance and development	Partnerships demand cutting edge training courses on stakeholder relations and social issues for companies. Company boardrooms are keen on partnership schemes to showcase company social and environmental policy e.g. Westvaco in the USA and Pioneer Tobacco in Ghana.
Worker performance and attitude	Some workers claim increased motivation due to their perception that the company has a ‘human face’, e.g. in South Africa, while in other cases deliberate local employment policies increase morale, e.g. in Guangdong Province, China.
Public responsibility	Good neighbourly relations, reduction of social risk and development of a ‘social license to operate’ are outcomes of deals with communities in the Solomon Islands, Indonesia, Nicaragua and Canada. Companies also use these deals to demonstrate broader social and environmental responsibility to shareholders and critics.

Impacts on company income, capital and risk

Weighing up the economic losses and gains from company-community deals is a convoluted, and often counter-intuitive, matter for any business. For example, consider just a sub-section of the chain of issues pertinent to outgrower schemes in South Africa. On well-suited land, small-scale farmers have better yields per hectare of eucalyptus than large-scale plantations. However, small-scale farms are widely spread, hence transport and other transaction costs make the factory price per tonne more expensive. But supply from large-scale plantations is limited – therefore sourcing fibre through input-intensive outgrower schemes actually increases the company's profit margin by supplying the last 10% of raw materials needed for production to achieve economies of scale.

Wood and pulp companies are usually attracted to outgrower schemes as a means to secure stable supplies of raw materials. Pulp mills in particular are huge investments requiring major raw material supplies that can be effectively secured through outgrower schemes and other deals. Sawmills for wood can often be more mobile – and the need to secure supplies in any one place, and hence to develop lasting arrangements, may be less strong. But outgrown pulp may not be cheap – none of the country case studies found examples of small-scale farmers selling at prices that could compete with those of large-scale plantations. Outgrower schemes work for companies willing to pay higher prices per tonne to recoup greater net profit (e.g. South Africa), or where large forest landholdings are simply too costly (USA) or impossible due to land tenure laws (India and Papua New Guinea). Outgrower schemes fail, from a company perspective, where defaulting is common, because there is too much competition from other buyers or the market is very volatile (India).



In contrast to outgrowing, tenant farmer schemes arise as a strategy to overcome shortages of labour, and they work in situations where conceding rights to production costs less than paying for labour directly. Different versions of this system have been successful in surprisingly different circumstances – in Canada, where the bulk of timber revenues return to the tenant but there is still sufficient surplus for shareholder dividends, and in Indonesia, where hired labour is very cheap. A second example in Indonesia shows a company-community deal, which is a grudging compromise – for PT Perhutani maximum benefit would accrue from an ideal scenario of no conflict and no scheme. The tenant agroforestry arrangement exists as a means of mitigating company losses to theft and vandalism.

Other types of schemes, such as joint ventures, co-management arrangements and land leasing, often offer companies not so much better margins as access to a resource or activity that would not be available otherwise. Several of the Canadian First Nation partnerships are attractive to participating external companies because of the associated rights to harvest timber on First Nations' land and take advantage of local skills and cheap labour rates. Economic success comes when partnerships allow business diversification. Failure is common, though, particularly in the case of joint ventures. In Canada this is

blamed on the relative inexperience of First Nation businesses, while in South Africa external factors such as previous debts, land insecurity and collapse of prices in the fibre market have been responsible.

Livelihoods objectives compared to company objectives

Like forestry companies, most smallholders and forest-dependent people see partnerships foremost as opportunities to make money. But – also like companies – individuals’ ultimate objectives are not merely quick returns but long-term survival, development and profit. People see deals with companies as part of a broader strategy towards secure livelihoods. As such, deals might offer better opportunities from existing livelihood options, for example for farmers who already grow trees but want less market risk, or access to entirely new options, such as being able to tap forest companies’ demand for supporting services or secondary processing.

Of course, people’s livelihood strategies are made up of more than just economic goals, and what they look for in deals with forestry companies reflects this. Ostensibly straightforward business motives for entering deals might conceal far more complex strategies to gain social standing, strengthen land claims or take advantage of the environmental services that trees provide. In these concerns too, individuals and communities are much the same as companies. For both, overall strategies for viability and improvement involve social and environmental aspects in addition to the more obvious goals of economic survival and growth.

Diversity of activities, or the lack of it, is another useful point of comparison between companies and communities. Even in rural areas characterised by having few apparent options for development, most community members will have a diverse range of livelihood strategies, of which tree management and/or company deals are only one, even if the main household income source. Diverse livelihood strategies are coupled to a more multi-use approach to land management than forestry companies, who mainly operate exclusively in one industry – or ‘core competency’ – and wish to manage land to maximise the output of a single raw material. A further crucial distinction between companies and communities is in capacity and power. Companies often have greater capacity than communities, in terms of financial capital, business experience, and often legal support too – usually adding up to greater power to set the terms of the company-community relationship and to frame explicit expectations from it.

Impacts on communities’ and individuals’ income, capital and risk

In economic terms, community partners will tend to be more interested in whether deals offer better returns to land and labour than alternatives, as opposed to large industry’s greater focus on returns to financial capital. Outgrower schemes do offer better returns, as discussed above. They work for communities where conditions for growing trees are good, some land is

available, but markets or starting-up are difficult. These situations happen for example where selling on the open market is not an option (e.g. XIP Indonesia) or the market is volatile and it may be preferable to have a guaranteed price than get the (probably higher) market price (Thailand). Joining an outgrower scheme can also be the best way of financing inputs, and gaining technical expertise, as a new grower (South Africa). For farmers, failure in outgrower schemes comes about when productivity is overestimated. Where open markets operate, unrestricted by transport or other problems, and companies are prepared to provide extension services without purchase preferences, as in India and the USA, formalised outgrower schemes tend to fall by the wayside.

Tenant schemes work for farmers when farming land is locally scarce, outstripping limitations on household labour. For example, tenant agroforestry in Indonesia is based on local households' willingness to exchange labour for partial use of quarter hectare plots. In other, unusual, circumstances the land-owning company's alternative management options are so expensive that they are prepared to offer very attractive tenancy deals, as in the Lower St. Lawrence Model Forest Project in Canada, where tenants are able to achieve incomes well over the provincial average (Kazi, 1998).

Other types of deals offer mixed economic returns to communities. Joint ventures can bring good returns, but require high outlay and will tend to have greater impacts on communities than companies should they fail. Land leasing is a limited option for communities, since there are no add-on effects for local employment and business development. One of the most promising features of company-community deals in Canada is the emergence of all sorts of locally based forestry enterprises, including value-added processing of wood products, haulage, road building, GIS mapping and fire control. However, a high proportion of these companies fail and the cautionary tale for hopeful community-based enterprises elsewhere is to take care not to price themselves out of competitive advantage – as some First Nations businesses have found when staff have become more skilled and able to command higher wages.

Company-community deals can make other contributions to financial and physical assets locally. Deals often broaden savings and credit options for participants, both directly and because trees themselves are a form of savings, treated as informal collateral in countries such as South Africa and India. Credit and trees-as-savings arrangements fail for farmers who fell trees early when faced with emergencies, or panic at the accumulation of interest on their debts. Gains of physical assets usually come with little cost or risk to community partners. Some relate to forestry directly – loans of machinery in Canadian ventures or building of access roads, input supply depots and weigh bridges in South Africa – but they can also benefit the community at large. Investment in local infrastructure is particularly a feature of corporate responsibility agreements, as in Ghana where communities have gained electricity lines, school classrooms and boreholes.

Taking a broader look at the impacts of company-community forestry deals on local livelihoods, is there any evidence that deals have made significant contributions to helping people out of poverty? Overall, the evidence is scanty. The most detailed analysis, from South Africa, suggests that outgrower schemes deliver significant financial returns to those participating, and have a significant knock-on effect in generating income for landless people contracted to scheme members. On average it is estimated that the schemes in South Africa contribute up to 45%, but usually closer to 15%, of the income needed to stay above the poverty line. Deals with companies can be useful to poor people, but as yet are not proving sufficient to provide long-term buffers against vulnerability and a low standard of living.

Sharing risks

Company-community deals can be seen fundamentally as a way of allocating risk between the two sides. Outgrower agreements typically put the full risk of production onto outgrowers and the market risk onto the partner company. In practice, though, the actual division is more blurred – companies perhaps take some of the production risk by not claiming back loans from outgrowers whose trees fail (e.g. South Africa), or mitigate their market risk by guaranteeing prices lower than the anticipated market value (Thailand). Tenant farmer arrangements pass some, or all, of the risk of production onto tenants, in return for a share of profits (Canada) or forgoing of timber productivity to agroforestry (Indonesia). Sometimes the financial risks of a deal are ultimately taken by a third party, usually government – examples come again from Canada, where targeted loan schemes ask repayment only from commercially successful joint ventures, and the XIP outgrower deal in Indonesia, which is underwritten by the local Forestry Department.



Generating bargaining power

To get better deals out of partner companies, communities need to improve their bargaining power. Fundamental to this is collective action, which can be organised through many different kinds of fora, such as for growers' associations, community councils, national unions or marketing cooperatives. Membership and decision-making processes determine who is really represented by any group. So-called communities of course comprise multiple sub-groups with sometimes very different interests. For example, the South African study noted that women often consider access to forest resources as more important than gaining financial capital. Dominance of groups by elites often leads to them getting a bigger share of benefits and a smaller share of costs – this is one concern among promoters of the social responsibility scheme in Ghana.

In some deals, well organised representation of the interests of community partners has emerged. Evidence is not convincing though that the existence of deals is what promotes development of bargaining power among community groups. The best progress has been made in countries that already have strong traditions of community and labour organisation, such as Canada and, to a

lesser extent, South Africa. Another good basis for bargaining power is effective control over resources of importance to the company. A pertinent example comes from Indonesia, where the tourism cooperative Kompepar used this power to negotiate a management deal with Perhutani, effecting a win-win outcome in which revenues have increased for both sides. Successful partnerships can go on to use their alliance as a foundation for bargaining with third parties. For instance, Sappi and Mondi in South Africa have used their outgrower schemes to lobby government for more rural roads, and the Canadian joint venture Babine won a substantial government research grant on the basis of its partnership.

Unions and equivalent groups can give community partners greater influence in negotiations with companies. Collective bargaining between free trades unions and companies is a form of dialogue that has existed for decades. Ground rules have been established by the International Labour Organisation in Conventions and the recent ILO Declaration on Fundamental Principles and Rights of Work. Collective bargaining can be understood as a partnership in itself, as the intention is to ensure a balancing of power in the negotiations between employer and employed. But even a well organised and legally acknowledged group may still come away short-changed from the bargaining table, or find that routes other than negotiation may bring better returns to members.

Much can be learned from the wattle industry in South Africa, where small growers' access to profits from the processing sector has come about through share ownership in the tannin extract factories, arranged by the union SAWGU, rather than through the ability of associations to negotiate better prices from the markets. South African eucalyptus outgrower associations have been unable to negotiate with companies for better terms of contract (for example bigger advance payments) or relative advantages over other sectors in the eucalypt industry (better prices from the mills, allocations of quotas between large and small growers). Set up by the timber companies themselves for administrative purposes, outgrowers' groups function to coordinate meetings and training, and to allocate quotas and payments. They lack real power since they lack the capacity to engage with policies and institutions that affect their livelihoods.



Human capital – developing skills and employment

Partnerships between companies and communities entail new skills on both sides. Companies often set up units responsible for interactions with communities and farmers. Staff are retrained or new staff employed as outreach workers. Company managers across Canada, South Africa and Indonesia report that deals with communities have meant that their staff have had to develop new skills in communication and management, and that their organisations have had to create new cultures of learning and adaptation. Some of these companies have made special efforts to assist their community partners in acquiring equivalent skills. Training of farmers or community members in technical issues of forest management are part of outgrower and tenant farmer

schemes in most countries, though the training tends to be geared specifically to the needs of the company.

Some companies also make contractual agreements to employ staff from local communities. Overall impacts on employment levels and local satisfaction with these arrangements are not clear, however, and may often be exaggerated. For example, one of the heralded successes of the Prima Woods land lease arrangement in Ghana (Box 36) has been local employment, but in practice the number of jobs is minimal. In Canada, where the main policy impetus behind company-community partnerships is employment creation, training schemes and guaranteed employment are components of most deals. Canadian forestry companies also have mentoring schemes with community-based enterprises to give training or tips on business skills such as preparation of bids. In other countries, for instance South Africa, local entrepreneurs eager to provide services (e.g. chainsaw operation) to outgrower schemes point out that one of their main barriers is insufficient business know-how.

Working conditions for direct employees within company-community deals tend to be poor. People employed to plant and weed the PT Perhutani scheme in Indonesia receive low and erratic wages – not surprisingly, the work attracts only the poorest of local residents. Others involved in dangerous work do so without adequate safety precautions, and without personal insurance. Most employment is offered on the basis of short-term contracts, so that regulations on leave, pensions, rules of dismissal and unemployment benefit are not applicable. Even within partnerships, the forestry industry remains a risky and unrewarding employment option for most rural people.

Environmental implications – growing assets and risks

The environmental impacts of company-community forestry deals are as varied as the operations they entail and the sites where they are located. In the case studies, participants in deals identified a range of environmental improvements associated with their schemes:

- *Reclamation of unused or degraded land* is considered a major benefit of the XIP outgrower scheme in Indonesia and farm forestry in India
- *Greater crop and product diversity* is a feature of the burgeoning co-management schemes with PT Perhutani in Indonesia, where community partners demand multi-species intercropping in pine and teak plantations
- *Sustainable multi-purpose management* is often thanks to government mediation, for example in Canada, where parties must submit and keep to management plans that incorporate environmental and social concerns
- *Micro-level protection against wind and water erosion*, especially where profit can be made from small numbers of trees planted along contours and field boundaries (e.g. India)
- *Reduction in environmental disturbance by logging operations* is often a condition in corporate good practice contracts like the Social Responsibility Agreements in Ghana

- *Sustainable supplies of by-products* to meet household needs for fuelwood and construction (e.g. India and Brazil)

Planting trees on land that is marginal for other crops, and low in valuable biodiversity, is considered environmentally beneficial by most people – but is not without its hazards, as governments, farmers and forestry companies alike acknowledge, especially in the drier districts of countries like India, South Africa and Brazil. Outgrower schemes can function therefore not only as a transfer of production risk to small-scale farmers, but also environmental risk. For example, farmers in South Africa and Andhra Pradesh, India, have reported reduced streamflow downstream from eucalyptus plantations, affecting water supplies for agriculture and household use. In other cases, management systems under company-community deals may bring specific risks, such as greater chances of fire under widely spaced or monocultural plantations.

Other negative environmental impacts associated with company-community forestry deals are:

- *Loss of land for crops*, though this is more often a fear than a reality
- *Reduction in crop and product diversity* where the terms of outgrower agreements demand that land is managed for timber only, and trees for timber only (e.g. South Africa)
- *Displacement of grazing*, leading to increased pressure on other land and disputes between growers and herders (e.g. South Africa and India)
- *Spread of weedy non-indigenous species*, for example in South Africa where wattle is a notorious invasive species associated with loss of biodiversity and arable land
- *New opportunities for large-scale logging in natural forest* is a major concern among environmentalists in Papua New Guinea and Canada
- *Incentives to clear natural forest for monoculture* are a concern in Papua New Guinea where the lease-lease-back scheme encourages oil palm plantations

9.3 How partnerships function

Basic prerequisites – rights, governance and information

Property rights and land tenure

Tenure over land and trees is the key underlying condition and determinant of the development of company-community deals. In some countries, such as China, changes in land tenure have provided impetus for deals, while in others, such as Indonesia and Canada, deals are part of the struggle for recognition of community land rights. For companies, similar issues can be at play. Rights over large companies' landholdings may be under threat, which is why they are increasingly attracted to outgrower schemes, as seen in South Africa where new land policy has opened space for claims of prior rights to company land. In other countries, such as India where 'land ceiling' laws apply, companies simply do not have access to land for large-scale plantations.

No single model of land tenure is the ‘right’ one for company-community deals – very different although well-established arrangements exist in both Brazil (individual tenure) and Canada (communal tenure). Papua New Guinea, meanwhile, may experiment in forestry with the novel lease, lease-back system to combine the benefits of non-transferable customary land ownership with the commercial opportunities of land transfer. Security of tenure probably matters more, especially given the long time-scale needed for deals involving timber production. For example, inexplicit land ownership was the main reason for the failure of the JK Corp leasing scheme in Orissa, India (Box 15). The importance of secure land tenure is hardly news for forestry. More surprising is that some company-community forestry deals have thrived in spite of contested or unclear property rights, as in Canada, or on the state-owned communal lands of South Africa and Zimbabwe.

National policy support and institutional coherence

Several governments around the world have developed specific policy to encourage company-community deals. Among others, Canada has a well funded programme to develop First Nation business initiatives through partnerships with better established companies. Social responsibility agreements in Ghana are enshrined in legislation governing timber utilisation contracts. In South Africa the rules set to govern the process of privatising publicly owned plantations require successful bids to demonstrate that communities have some stake in ownership. These kinds of policy changes have been fundamental to creating an appropriate climate for deals to develop. They do not entail forestry policy alone, but much broader considerations such as land distribution and titling, domestic and international trade and national agendas for food versus cash crop production.

Forestry Departments remain major players in mediating deals in most countries, though they tend to have mixed roles, playing not only the referee, but also tax collector and sometimes facilitator or loan provider as well. At the same time other governmental bodies, such as local councils and agricultural extension agencies, are also likely to be involved. In the emerging joint ventures in South Africa, provincial development corporations have been made additional partners. Coordination and coherence within and among various agencies is essential. This is particularly true at the local level, where company-community deals actually function. National forestry policy may be less important than local capacity building – for example the programme in Canada puts emphasis on making it easier for communities to register and operate as companies.

Looking at the wide range of external policies and institutions that affect company-community deals, there are some key problems outstanding:

- ***Dumping responsibility without building capacity.*** ‘Devolution to communities’, or handing over risk to farmers, who may not yet be in a position to make informed decisions and trade-offs between long-term sustainability and short-term gain is not likely to foster genuine partnerships or improve either forestry or livelihoods.

- ***Mysterious or opaque government policy.*** Information about the policies of forestry and land departments, on land use and reform, forest management and woodlot devolution, and business management and markets, is not yet reaching communities in the places where deals are being mooted.
- ***Overcomplicated bureaucracy and controls.*** Most countries have far more restrictions and permit systems for the planting, managing and harvesting of trees than for other crops, creating an unintentional barrier to tree-growing as an attractive livelihood option.
- ***Uncoordinated service provision.*** Various agencies of national and local governments give out conflicting signals, duplicate efforts and fail to develop the positive momentum that might come from collaborating more closely on e.g. upgrading infrastructure, stepping up law enforcement and training communities in managerial and entrepreneurial skills.
- ***Excessive company influence and non-compliance.*** In some contexts, the power of corporate interests to shape policy in their favour and to avoid compliance with existing legislation and investment rules is simply too great for national or local governments to counter.

Company-community partnerships can only work if the legal and institutional means exist to protect community rights. Representative government structures are needed to ensure that local citizens and their community organisations do not get pushed aside by external companies. They can also defend ‘local interest’ against projects that conflict with local interests but are justified by external agencies as serving the ‘national good’.

Information and communication

Company-community deals that involve growing trees are necessarily long-term arrangements. One of the biggest challenges at the beginning of these relationships is accurate forecasting of growth rates and productivity, national policy and politics, and, most importantly, market opportunities and prices. Both sides in a contract need to be able to make a reasonable analysis of the outlook of the deal in terms of expected returns and the risk associated with these returns, compared to alternative options. Information is also needed on relevant technology (e.g. appropriate clones for planting), business practice and contract law, strategies for overcoming transaction costs, and the environmental implications of tree-planting in different sites. Knowledge of social dynamics is also valuable, especially to gauge wider community support for deals with groups as opposed to individuals.

Each side in a deal also needs to understand the other – for example their viability, price margin flexibility and degree of dependence on the deal. This kind of information necessitates good communication between the partners. Regular and transparent sharing of information has been a key reason for success in some company deals, such as in the joint venture schemes of

Australia and Canada, while poor forecasting and mutual misunderstanding has explained the demise of others, such as the Wimco outgrower scheme in India. Company managers involved in deals with communities have repeatedly stressed the need to develop effective two-way communication. Good field staff are often an important part of this strategy, as experience in South Africa, India and Indonesia has shown. Ultimately, for deals to move towards more equitable partnerships requires strong relationships that sustain trust and mutual respect.

What sparks or catalyses a deal?

The initial impetus to set up a deal may be positive, for example new business opportunities for the First Nations in Canada. Other deals arise more from negative circumstances, particularly the need to manage conflict, as has been true for PT Perhutani in Indonesia. Technological advances can also kick-start company-community deals – research and development by XIP in Indonesia led to acceptance of the local weed pulai as a raw material for pencils, opening scope for deals with local growers. As discussed above, one of the main sparks for deals is changes in government policy, often deliberately wrought to encourage partnerships between industry and communities.

But government agencies do not just rewrite legislation and sit back to see what happens – policy change involves intensive engagement with prospective company and community partners. Governments in Ghana, Papua New Guinea, China and Canada have invested heavily in publicity, advisory services and facilitation of company-community deals. In these cases, governmental bodies act as vital catalysts to get deals off the ground. The case studies show that third parties invariably play crucial roles in stimulating and facilitating partnerships, as well as in supplying essential capital or expertise. Government agencies are probably the most crucial third party, but key roles can also be played by NGOs (successful go-betweens in Indonesia), banks (very important in India and South-East Asia) or growers' associations (such as SAWGU and NCT in South Africa).

The role of key individuals in the development of partnerships can never be overstated – indeed an individual or small group at the centre of it all is often both expected and essential, as people want to see a spokesperson or coordinator of the process. Deals are generally progressed by an individual or small group with the motivation, centred on particular objectives, to drive and make changes. Evidence from deals as widely different as Klabin in Brazil, Kolombangara in the Solomon Islands and Sappi in South Africa demonstrate this. The backgrounds of these people vary, sometimes they are insiders well-versed in local livelihood needs or company practicalities, sometimes they are from outside the system and therefore relatively uninhibited by its traditions and mores. A common characteristic of such champions of change is their ability to identify issues that are susceptible to change, to make small changes and win tactical battles, and then to ratchet up progress in tackling bigger problems.

Why do some not join available deals, and what do they do instead?

Company-community deals come with a full set of opportunity costs and transaction costs that can be off-putting to potential participants on both sides. Among companies, a common obstacle to entering deals is simply a policy of risk avoidance – choosing not to experiment with a model of production involving unknown partners. The India and South Africa case studies illustrate how forestry companies have tended to depend very much on lessons learnt by other companies before taking the plunge themselves. In India, especially, the path pioneered by Wimco – free seedlings, then bank loans, then clone development – has been copied more or less exactly by a number of other companies.

Among communities, capital is often the key to whether or not individuals join deals. Often those who are excluded from deals are the poorer members of a community – in terms of land, labour or finance. The eucalyptus growing schemes promoted by the company ITC BPL in Andhra Pradesh, India, provide a typical example (Box 14). Small farmers have not got involved because they simply cannot meet the initial and recurring costs of keeping plantations. Meeting these outlays is not a universal problem, however. In the South African outgrower schemes, where the company loans recurrent costs, even the poorest farmers enter into contracts. Those excluded in South Africa are farmers whose landholdings do not meet the minimum required by the companies – often young people who have moved away from their parents' homes. Landless people are excluded from direct participation in out-grower schemes – and this has been a major issue in the Philippines and India. Even schemes based on land controlled by the company may benefit better-off members of the community more than their poorer neighbours. For example, in the *taungya* schemes in Indonesia, there have been allegations that the best plots always go to the wealthier and more influential families.

What are the prospects for the poorer community members who are excluded, often involuntarily, from partnership arrangements? The case studies show that deals often have spin-off benefits that accrue directly to poorer people – usually by providing employment opportunities that are not well enough paid to be attractive to those who are better off. In both Indonesia and South Africa, the wage earners in outgrower schemes, who carry out tasks such as planting, weeding and firebreak management, come from the poorest households in local communities – sometimes landless themselves and contracted to work on the land of others. Whilst employment might contribute to increased incomes among the poorest groups in a community, at the present low rates of pay they are unlikely to reduce local inequity where land-owning farmers are doing well out of outgrowing. One important lesson from South Africa is that chainsaw operators who have organised themselves into cooperative enterprises (labour teams) have done better than individual contractors. A key way forward is thus to find openings and develop business skills for local enterprises to offer competitive services to those tree-growers, forest managers and the forest product industries.

What's included and what's missing in a typical contract?

The case studies give examples of contractual arrangements for outgrowing in South Africa, tenant agroforestry in Indonesia, land-leasing in Papua New Guinea and corporate social responsibility in Ghana. Although different in their specific aims, all serve as means of distributing rights, responsibilities and risks between the two sides. Most contracts originate from the company rather than the community partners. Thus their terms favour company interests, for example by locking participants into long-term deals. The case studies illustrate, however, that it is in the interests of the company as well as community partners to draw up a clear and mutually acceptable contract at the start. Both sides want to avoid the disillusionment, defaulting and litigation that have arisen from unsatisfactory contractual arrangements in, for instance, India, South Africa and Indonesia.

What do company-community contracts tend to include and to leave out?

Typically contracts contain the following:

- Percentage of benefit sharing
- Technical responsibilities of each side
- Inputs and who pays for them
- Terms for financial loans
- Commitments to local development by the company

Often they do not include:

- Adaptations to local conditions or individual farmers
- Contingency arrangements for defaulters or unexpected events
- Provisions for review and renegotiation
- Conditions for arbitration in case of dispute
- Specific enough wording to be legally enforceable

Since contracts tend to emerge from companies, or from government blueprints, there are few examples of properly negotiated agreements. Where considerable effort has been put into a process of negotiation between the two sides, such as in the social responsibility agreements in Ghana and the co-management agreements in Indonesia, the resultant memoranda of understanding have vague terms and no targets or criteria to judge performance. These circumstances can improve with time, as in South Africa where outgrowers have made use of legal advice to improve the terms of their contracts. Better contracts are not always more comprehensive – intricacy brings problems with intelligibility, internal consistency and versatility. The process of entering into a contract can also be hampered by over-complexity. The stages needed to establish a contract in Papua New Guinea's lease, lease-back system, for example, is protracted and expensive, drawing in a series of third parties.

Importantly from the company perspective, what are the differences between deals with other companies and deals with farmers or communities? Contracts with community groups or individuals who are not registered as companies are

outside the remit of corporate law. With less sophisticated contracts, backed by fewer and weaker legal frameworks, agreements with community partners are far more risky than equivalents with other businesses. Also, there is far more potential for bad business practice on both sides. Some communities have been able to move to registered company status (e.g. in Canada) – resulting in deals that are far more secure for their partner company. This experience presses home the point that fair and legally sound contracts at the outset are the best basis for a long-term relationship of trust and mutual benefit.

How do deals develop over time?

Most of the deals described here have short histories – few have been running for more than a few years, and the oldest studied in this review are about 20 years old. This is not so much a reflection of the innate fallibility of partnerships, but rather because company-community forestry deals have become so much more widespread in recent years. The future of this proliferation of deals – whether partnerships will be a stable model for timber-growing in the long-term, or collapse as outside interest dwindles – is uncertain. The most useful insights come from partnership frameworks that have existed for a decade or more, where agreements have been renegotiated and revised as partners reassess their circumstances. In the long term, deals tend to develop in one of three broad ways:



- ***Little change over long periods*** – for example Picop in the Philippines (Box 50), PT Perhutani in Indonesia, and Aracruz in Brazil. These deals are usually dominated by the company partner, which lays out a pre-defined package of terms and conditions for individual farmers and community members to accept or reject. The one-sidedness of these arrangements is not necessarily a bar to the schemes' popularity – the Aracruz outgrower scheme, for instance, has attracted far more farmers and far greater areas under timber than anticipated.
- ***Strengthened position for community partner*** – for example First Nation partnerships in Canada. In these scenarios, the community partner is well organised, sometimes forming a union or registered company. As the deal gives community members more experience in business management, law, marketing and negotiation, they improve their position within the deal. The small growers in the South African schemes are beginning to federate and flex their muscles in this way. Renegotiation could aim for a more explicit sharing of crop and market risk, a greater share of benefits, or more favourable terms for changing, or defecting from, the agreement. A stronger position for the community partner is by no means a loss for the company – working with a more equal partner, especially when mutual responsibilities are legally binding, greatly reduces the business risk associated with partnerships.
- ***Dissolution of deal*** – for example Wimco in India (Box 13) and Boise-Cascade in Mexico (Box 46). Official terminations of deals do not necessarily

signal the end of working relations between partners, but may rather be one of many stages in shifting priorities and market opportunities. In India, forestry companies' involvement in small-scale farm forestry has evolved through a series of discrete steps, each a different take on the concept of company-community deal. Current arrangements between tree farmers and milling companies in India are looser than they have been in the past twenty years – the natural progression for both companies and communities has been towards a freer market. How and why deals expire is discussed further in the next section.

The three broad scenarios outlined above suggest that, as deals develop over time, the tendency is towards stronger bargaining positions for the community partners, and hence more equitable arrangements. Are there any examples where the community partner weakens over time? In some cases the community partners have serious complaints about the deal. In Papua New Guinea, community level capability to make effective and equitable deals appears only to emerge, sadly, from the experience of taking part in weak and often exploitative logging deals. Many participants in the Indian outgrower schemes have lost money and feel deceived, while in the XIP scheme in Indonesia farmers feel that company-community communications have deteriorated over time. These examples show stagnation and disillusionment in the deals, but in no case has the position of the community partners become weaker over time relative to the company. In general, perseverance pays off for community partners, as long as the framework of the deal is flexible enough to allow adaptation to changing circumstances.

Why do deals end, and what happens to the partners?

Some company-community deals end in ignominy, sometimes for reasons external to the success or failure of the business deal itself. For instance, Boise-Cascade withdrew from Mexico because of a negative environmental and political record. While some deals end in bad faith and litigation, in other cases termination is by mutual consent and for mutual benefit, as has happened with some of the post-Wimco company-community deals in India. The basic reason for most company-community forestry deals to wind down is because of changes in markets for fibre – with one or other partner finding better prices for the same product or service outside the deal than within it.

The end of a deal is not necessarily a sign of failure. With the current balance of price risks in the deals examined in India, it is advantageous to both parties for contractual obligations to be wrapped up over quite short periods of time. Indeed, some deals have a cut-off point built in from the start. Specific company-community deals may be transitory stages in the long-term development of forestry business, and the end of a deal may in fact be a move towards more equitable, efficient and sustainable forest industry. Perhaps the acid test of a successful partnership from the community partner perspective is not the longevity of the deal, but whether farmers or communities go on to

become effective private sector operators themselves, or to pursue alternative improved livelihood initiatives. The proliferation and diversification of First Nation enterprises in Canada and the growth of farm forestry as a profitable option in India are good examples of gains for communities beyond the bounds of company-community deals.

9.4 Thorny issues

Complexity and transaction costs – rigid versus flexible models

One of the biggest challenges for companies is how to deal with a large number of scattered farmers or groups – not only how to collect or distribute raw materials and products efficiently, but also how to negotiate, determine roles, reach agreements, establish cost-benefit sharing mechanisms (with groups and within groups) and continually review the arrangements. This is why simple, replicable partnership models are favoured, which can be applied to large numbers of small producers or communities at low cost. The simplicity in itself may be an asset in attracting farmers and communities but may also be at the expense of the flexibility required to make deals suit local circumstances and bring benefits to local livelihoods. Approaches are needed which can bundle together small-scale producers to lower transaction costs, but combine these economies of scale with local flexibility.



Communities of course suffer from similar problems of scale that beset companies. As individuals, they have limited ability to negotiate efficiently and effectively, or to access affordable services such as transport. The solution is to create economies of scale by joining or forming farmers' groups, cooperatives and other alliances. Even small associations can improve efficiency significantly, as a group of women outgrowers has discovered in South Africa (Box 5). Organising a group entails its own transaction costs, and community partners, whether individuals or groups, may often do best by linking up with already existing systems and alliances. Locally based, smaller organisations may offer better services to communities – Indian outgrowers have found that cooperative banks process loans much more quickly than the bigger commercial banks. Communities can reduce the costs of dealing with their partner company through good internal organisation. However, some kind of loose-tight model needs to be applied even at the within-community scale, say to allow outgrowers distinct individual contracts even though bargaining is collective. In some countries, administration of the company-community deal is eased by government departments that act as go-betweens (e.g. forestry bureaus in China and the forest enterprise development office in the Eastern Cape, South Africa; Table 13).

Pathways through complexity and towards reduction of transaction costs may include:

- Companies devolve power and budgets to local staff, while maintaining core principles of partnerships ('loose-tight' model of management)
- Companies utilise field-based outreach and extension staff – these can sometimes be contracted in from other providers
- Farmers form coalitions – if possible linked into local and national networks (such as farmers' unions or NGO networks) – even if partnership contracts are individually based
- More locally, farmers form small alliances to deal with immediate transaction costs of buying inputs and organising labour
- Communities piggy-back on local existing systems to solve costs associated with simple infrastructural problems (e.g. get wood to market through agricultural trading systems)
- Communities develop deals through engagement with local government and building on extension services, rural development NGOs, existing agribusiness outgrowers, and local 'brokering' agents (e.g. community campaigners)
- Similarly, existing farmer coalitions can work as a starting point – e.g. integrated pest management (IPM) groups, sellers' groups and co-operatives

Uncertainty – how to cope with risks

Forestry is a long-term and uncertain business. Dependence on a partner adds another element of risk. These risks affect companies, communities and third parties, such as banks or transport contractors. In outgrower schemes, companies often prefer to manage risk by passing production risk onto farmers and tying them into fairly rigid, long-term schemes. For the farmers, faced with the opportunity costs of devoting arable land to trees and mounting interest on forestry loans, an attractive option is to default early from the outgrowing contract to gain quick cash income or to pay off debts. Where outgrowers have been able to negotiate better deals, as some growers' associations have achieved in South Africa, one of their main concerns has been to set contractual terms that pay off loans sooner.

Instead of these limited options for companies and communities, what mechanisms and incentives can be introduced to reduce uncertainty in deals, without creating a rigidity or uniformity that is unacceptable to local livelihoods? A key factor is choice. Companies do not need to go as far as offering every partner individual a tailor-made contract, but an array rather than one single model of tenancy, contract farming or land-leasing is advisable – as offered by company-community deals that are working well in Brazil, Australia and the United States. Flexibility over time, including space to respond to changes in market performance, is another advantage. Companies and communities also need to seek better services from third parties, by convincing them that the deals are a stable and sound investment. Governments often bear the ultimate financial risk, through underwritten loans, and may be

prepared to continue or expand this service where they are convinced of spin-offs for the environment or rural livelihoods.

In the business world, a common way of coping with risk is through insurance – a critical missing ingredient in company-community deals because small-scale farmers are unable to secure insurance policies. Like the banking sector, where smaller scale cooperative banks have turned out to offer more reliable and efficient services to communities than larger banks have been able to provide, small local insurance services may find a niche as a service provider to company-community forestry collaborations. Small-scale farmers and community groups could also benefit from using growers' associations or other groups to provide an attractive business option for agricultural insurance companies.

Capability to resolve uncertainty and cope with risks may be improved where:

- Schemes are introduced in phases rather than with a bandwagon approach
- Both sides keep ambitions simple at first and stick to a learning cycle philosophy
- Both sides avoid becoming too dependent on a single commodity or single land use
- Farming systems are designed to include early revenues from trimming trees, partial harvesting or intercropping
- Government provides incentives and buffers such as soft loans and tax breaks
- Insurance companies expand their services to small-scale fibre producers or producer associations



Single or mixed production systems?

Company-community deals need to consider the trade-offs between forest goods and services, and between forestry and other land uses. Local groups seek multiple benefits from forests for different purposes. Emphasis on single commodities in forest areas has historically been associated with community disenfranchisement and poverty after a short boom. Simple forestry models, as opposed to accommodating mixed land use, may prejudice against local livelihoods by encouraging broad-scale transformation of rural landscapes to forestry, and a type of forestry based on single species and single products. When markets are dominated by the economies of scale, farm-forest systems are unlikely to be recognised and profitable.

Under pressure from community partners, some companies have conceded better terms for multi-purpose forest management in agreements with outgrowers and tenant farmers. For example, allowing agroforestry in teak and pine plantations has long been a labour strategy for commercial forestry operations in Indonesia, and more recently PT Perhutani has allowed wider spacing of timber trees and a greater variety of both tree and crop species to suit local preferences. In South Africa, companies have found that intercropping with legumes in the first two years not only gives growers early income, but also improves soil fertility. Where markets for raw materials are more competitive,

as in India, small-scale producers of wood fibre are not controlled by minimum hectares under trees and are able to divide farm land among multiple uses, sometimes confining trees to small strips along field boundaries.

Adaptability and increased diversity of production systems can be enhanced where:

- Both companies and communities consider activities other than tree growing – secondary processing, production of non-timber forest products (some of which are highly profitable e.g. feeding into horticulture business), tourism and the management of forests for environmental services for which there are emerging markets e.g. watershed protection, carbon storage, biodiversity conservation and landscape amenity (see Landell-Mills and Porras, 2002)
- Farmers devote only part of their land, time and capital to partnership activities
- Companies maintain a diversity of sources of raw materials, and remain open to the advantages of intercropping

Conflict, mistakes and recourse

Even the most productive of partnerships incorporate some conflict, and as relationships move forward, so new sources of conflict arise and need to be managed. Conflict can arise from many issues – often the basic problems of limited resources and differences in outlook are the underlying problem, exacerbated by perceptions of inequitable treatment or violations of rights. Usually these tensions have deep historical roots, as is apparent in the case studies from Indonesia and Canada. Environmental and market change can also create friction between partners. Furthermore, both sides make mistakes. For instance, inaccurate price forecasting at the beginning of outgrower schemes is more likely to be an optimistic error than a deliberate ploy by companies to lure farmers into unsound land uses.

Conflict management for company-community deals requires flexibility, plus pre-agreed paths of arbitration and recourse (Table 13). Deals that involve groups rather than individuals from a community also need mechanisms to cope with internal disputes and non-compliance – local institutions that are already working well can be the key to this. The scenario to aim for is one of shared learning, among community participants, and between the community and the company. This may sound idealistic, but is functioning effectively in unexpected circumstances, such as in some of the negotiations and cooperative planning between Perhutani and local villages in Indonesia. Successes like these may be based on the fact that locally based company managers often share the forest management objectives of other local residents.

Capability to manage conflict, rectify mistakes and seek recourse in cases of non-compliance can be improved when:

- Contracts include conditions for arbitration, and a named arbitrator
- Companies don't overstate predicted positive outcomes at outset of deal
- Both sides spend time developing good personal relationships, and minimise

turnover rates of company staff or community representatives in order to maintain these relationships

- Where possible, partners develop a culture of shared learning
- Small claims courts are used to settle disputes more efficiently

Limits to corporate social responsibility

The desire of companies to demonstrate corporate social responsibility – because it is good for business – is amongst the primary reasons for initially pursuing many of the partnerships analysed in this review. However, internationally forest industry has other concerns – it appears divided by competition, pricing power, and the processes of acquisition and merger. Taking steps towards more sustainable practices is repeatedly put on the back-burner. As Robins (2001) notes, writing more generally about corporations and sustainability:

Septicism remains the norm. Within business itself, many companies continue to exist in a state of denial – unaware, evasive or openly hostile to the changes that sustainable development requires. This situation should shock no-one. Business is hardwired to generate profits for shareholders from satisfying consumer wants: it is simply not programmed to deliver the major public goods – clean water, social justice and accountable governance – that sustainable development implies... [Where progress has been made towards sustainable development] the question is now whether these initiatives are prefiguring new regimes for governing global corporations – or just trimming the excesses of the status quo.

Corporate responsibility initiatives, and the criticisms of corporate social and environmental practices levelled by pressure groups which stimulate such initiatives, are inadequate for two major reasons, because they:

- ***Allow corporations to win at the expense of smaller livelihoods-oriented enterprises.*** Deals with communities, like other corporate social responsibility initiatives, may have the effect of boosting company credibility leading to big businesses gaining at the expense of alternatives such as small and medium enterprises – which may be better at delivering benefits to local economies. In South Africa for example partnership schemes have helped shore up the reputations of the biggest forestry companies just as wider societal debates and laws are promoting a larger number of smaller, communally based, producers and more equitable patterns of land and resource control. Internationally, some environmental NGOs have noted that a small number of companies control a high proportion of the forest industry and are increasingly concentrating their environmental advocacy on this small number of companies. There is a danger that defining good practice using the experience of a few, successful, influential companies alone can damage prospects for other, smaller or poorer groups. At worst, the net effect is a furthering of the trend towards industry concentration, with the interests of smaller producers largely ignored.

- *Cannot address the deeper systemic problems of corporate power.* There is a need to think more fundamentally about the rules by which corporations are permitted to operate – a major challenge when governments do not have the capability or sometimes the desire to address the more systemic problems of poverty and environmental degradation. “Getting progress thus means redefining anew the boundaries of responsibility for the state, the corporation and the citizen” (Robins, 2001).

Relying on ‘voluntary’ corporate decisions to contribute to better forestry – in social, environmental and economic terms – will not get us there. In order to create the incentives for all businesses to adopt more socially and environmentally positive practices, a combination of enabling and censoring legislation is needed, alongside the raft of voluntary tools currently being developed, and pressure from civil society campaigns. Where the market is unable to deliver an acceptable balance between costs and benefits, or distributes the costs and benefits unfairly, efforts should be focused on generating sufficient strength in public policy to set effective frameworks. Governments will need all the help and pressure they can get – in some contexts NGOs and communities should focus more on partnership with government than with companies.

Approaches for overcoming the failings of partnerships generated through corporate social responsibility may include:

- Giving teeth to measures based on legislation, such as investment rules, fiscal incentives and disclosure requirements. These should be understood as complements to voluntary corporate social responsibility tools such as those that have emerged to guide ethical supply chain management, corporate reporting, codes of conduct and socially responsible investment fund management.
- Support for practical rules governing alternative business structures – and for alliances to support equitable and effective small and medium scale enterprises.
- Promoting partnerships on their own merits rather than because a company needs to demonstrate social responsibility. A focus on company-community partnerships can help develop the understanding of business as part of society, contributing directly to the welfare of society, rather than somehow separate from it, and informing the making of policy and strategy choices.

Table 13 Some key constraints in partnerships and innovations to overcome them – examples

Constraints	Innovations
<p>High transaction costs for growers/communities. Picop, Philippines outgrower scheme – those with smaller land holdings cannot afford to invest their time. Community interactions in Papua New Guinea dominated by issues linked to logging deals</p> <p>High transaction costs for companies. Pioneer Tobacco, Ghana invests heavily in social responsibility projects and teak outgrowers to mitigate negative image of tobacco industry</p> <p>Farmers renege on agreement to sell to company. Major losses to company as farmers sell trees elsewhere – e.g. Wimco, India, and Phoenix, Thailand</p> <p>Companies renege on agreements with farmers/communities. Boise Cascade, Mexico abandoned five year forestry revenue-sharing and capacity-building deal with land-owning ejidos communities after pressure from environmental groups in USA</p> <p>Poor predictions of yields/markets. Farmers' loans outweigh their eventual profits so they remain in debt to the company e.g. Ballarpur, India. Farmers entering contracts with little information as to whether pine plantations are best use of land in Georgia, USA</p> <p>Lack of dispute resolution mechanisms. 550 court cases against Wimco, India based either on dissatisfaction with the technical assistance or loans provided, and company also got involved in 2,332 arbitration cases in an attempt to recover its dues for seedlings and technical services from the farmers</p>	<p>Alliances and organisation. South Africa grower and contractors groups share costs, and small growers now represented alongside big companies in national level private sector forestry association</p> <p>Contract out/establish models. In South Africa, Sappi contracts a local rural development NGO, Lima, to run part of its Project Grow programme while Mondi is also contracting out its Umzimkulu joint venture. Model joint ventures can subsequently be more cheaply replicated e.g. Australian Newsprint Mills</p> <p>Pay market price. Arrival of new buyers on the scene makes companies respond to competition by paying the market price – growers stay loyal e.g. Aracruz, Brazil outgrowers and now India farm forestry</p> <p>Increase community investment security. Smurfit, Columbia – an established company with a reputation it cannot afford to lose – makes long term contracts with outgrowers who receive all plantation rights and benefits if company pulls out</p> <p>Joint planning/research and development. Westvaco, USA jointly develops and monitors management plan with landowners. Lack of seedling success on certain land types (marshy land) sparks XIP, Indonesia, into R&D on new clonal varieties</p> <p>'Marriage guidance'. In 2000, South African government set up Forest Enterprise Development Office in Eastern Cape as a pilot exercise to link communities with potential private sector investors. It aims to act as a firewall between investors and communities, offering brokering and guidance on financing and equity deals for forest development</p>

What next: ways to convert raw deals into mutual gains

“I don’t know the key to success, but the key to failure is to try to please everyone.”

Bill Cosby

At the start of this concluding chapter it is appropriate to issue a ‘health warning’. Generalisations can be dangerous. They can mask vital local differences and lead to inappropriate judgements if they are taken for blueprints.

On the other hand it is a little disingenuous, or at least a bit precious, to claim that no comparisons are valid and that trying to draw lessons from one place to another is an exercise in futility. We believe that such links can be useful – that when thinking of what to try in one place we should try to learn from others. At this stage of development of the partnerships game in forestry we propose that it is better to err on the side of bold generalisation than on cautious specificity.

Debates on these issues are in their infancy – yet the protagonists (and readers) in the debates are sufficiently mature to be able to take a conclusion ‘on the chin’ and to agree or disagree with it. In any case, experience suggests that getting people to disagree can be more productive in the long term than pitching for a tentative consensus. In what follows we do not aim for a ‘definitive set of answers’ but for some shared elements of experience, some apparent success factors, possible principles and challenges ahead for developing better partnerships. With luck this will inform and provoke thinking about how to support partnerships and improve practice in specific contexts.



10.1 Factors which seem to explain success in partnerships

Good deals, those moving towards better outcomes for each partner and better forestry, seem to depend on a number of factors. Some of these factors relate to actions taken by companies, others relate to communities. Some factors are functions of the relationship – the partnership itself – and need the attention of both parties.

Success factors for companies in partnerships

If companies – from large-scale corporations through to small-scale private enterprises organised for making profit – are to thrive on a partnership approach with communities, the following factors deserve attention:

- *Technical innovations providing a stimulus* – novel technical solutions to supply shortages can lead to new forms of company organisation and association with partners

- ***Kick-start funding*** – government financial support and other policy incentives can be the key to kick-starting economically viable deals – so engaging with government schemes can be crucial, but with caution since changes in government policy can lead to suspension of funding
- ***Reducing transaction costs*** – by focusing on ways to make interactions more efficient (not by minimising interaction with partners which can incur higher transaction costs later on as partners become dissatisfied with the low level of communication)
- ***Devolution of decision-making*** – and control over budgets to field staff allows greater flexibility and quicker institutional learning
- ***Dealing with community realities*** – in the long run, the survival of the partnership will depend on benefits and responsibilities accruing widely among the local community, not just among the elite – it is therefore crucial that a company engages with representative local opinion
- ***Paying market prices*** – companies should pay the market price for products, and secure supplies through supportive rather than coercive relationships with producers, otherwise producers may renege on contracts and sell their produce on the open market. Removal of government subsidies to industry may in itself push companies towards better deals with communities or individual producers
- ***Developing company social skills*** – companies capable of dealing with the range of issues in partnerships will require teams with skills beyond those commonly involved in corporate social responsibility projects. Recruitment and training of in-house social specialists and outsourcing to consultants and NGOs may be needed
- ***Management changes given adequate time*** – real change in systems of management may take many years; a careful strategy of sharing new concepts needs to be in place, preferably including local staff from the earliest stages of decision-making
- ***Staying ahead of the legislation game*** – many governments are turning to policies that aim to favour socially responsible forestry; the companies that take up this challenge before legislation requires them to do so will have a competitive advantage later
- ***Preparing for changes in the political, economic or environmental weather*** – companies that invest in relationships may better weather changes in economic and political circumstances, such as the shift from timber concessions to plantations as the main supply of timber

In short, if as a company manager you are interested in getting out of the board room, taking a few astute gambles on the strengths and abilities of others, looking to the future and maintaining flexibility – then partnerships are for you. If your vision includes none of these things, you should stick to the knitting.

Success factors for communities in partnerships

‘Communities’ are even harder to pin down as a ‘thing’ than companies. Here we refer to farmers and other individuals as well as community-level units of social organisation such as farmers groups, product user groups and

cooperatives. With regard to these groups' dealings with companies, the following factors deserve attention:

- ***Social organisation*** – formation of cohesive groups that meet regularly, and can provide mandated representation, will strengthen the community's bargaining power and ability to amend earlier oversights within a deal. If the basis of organisation does not exist within the community, it may be worth delaying the process of negotiation until it can be developed
- ***Means of engagement with the company*** – maintaining regular contact with the partner company and third party stakeholders is crucial to ensuring that agreements are kept and that information is shared
- ***Explain and explain again*** – within communities, widespread knowledge of, and access to, partnerships requires serious and sustained investment in distribution of information
- ***Pro-active planning*** – pre-empting the company in the design and organisation of key aspects of deals will secure a greater influence over the form and development of those aspects
- ***Legal incorporation*** – formation of a registered company (with equity shared broadly and equitably among the community), or other formalised community institution such as a common property association, growers association or trust can be a powerful platform from which to negotiate
- ***Action in second-best environments*** – it may be worthwhile to pursue business opportunities and partnership ventures even in unresolved or non-conducive tenure and governance contexts because small steps can generate momentum for their improvement

Where the opportunity arises to make a deal with a company, local groups would be well advised to consider their options carefully. There may be better ways to go. If the company deal option is taken – then the nature and practice of the deal is everything. Companies are not going to bring sustainable development or wipe out local poverty single-handedly - and many dangers lurk along the way. Communities should enter the deal-making arena with their eyes open.

Success factors in the partnership itself

There are some general pros and cons of 'partnership behaviour' that seem to be borne out by the evidence in the forestry sector. When parties come together in a collective endeavour there may sometimes be detrimental effects on individuals – stifling individuality, distorting individual perspectives or forming the basis of unwarranted prejudice against others not involved. Individuals may feel pressured to conform and to reach consensus. If they are strong, partnerships may generate an illusion of invulnerability or a collective rationalisation that can override doubts and dismiss warning signs. They might even incite members to advocate greater risks than if making their own decisions. Certain company-farmer groups promoting tree growing in India seem to have demonstrated this at times. However, when they are both strong and heading in the right direction, the positive effects of partnerships begin to

heavily outweigh the negative. These include the coming together of different resources, complementary knowledge and expertise, and the ‘snowball’ effect of interactions between the parties provoking further thoughts and ideas.

- ***Generation and access to sound information and forecasting*** – analysis and good record-keeping on short and long-term factors affecting forestry development, including: previous record and viability of partners, market trends, product volumes and competitiveness, price margin flexibility of partners, necessary infrastructure, government policy, code of practices, suitable sites and technology, local SFM practices, partner participation, wider community support
- ***Shared understanding of prospects and opportunities*** – the potential for social conflict reduces in proportion to the effort put into dealing with mismatched expectations, the likely short- and long-term prospects of deals, and contingency scenarios if arrangements are nullified
- ***Enabling government action*** – notably tenure arrangements, infrastructure development, complementary/enabling policy in forestry and other sectors, and investment conditions
- ***Flexible models*** – based on monitoring and review, and capable of adaptation to changing conditions and widely differing local circumstance
- ***Negotiated arrangements*** – deals are strongest where there are clear joint decision-making mechanisms and the main elements of the deal are co-developed and periodically re-negotiated. Negotiation processes are where trust, confidence and complementarity between partners originate. *Provision of neutral space and impartial mediation* may be necessary.
- ***Formalised arrangements*** – deals need legal status with clear written details of: rights and responsibilities; allocation of costs, benefits and risks; and arrangements for termination, recourse and compensation
- ***Secure contributions*** – land committed to deals must have secure tenure, businesses must be viable, etc.
- ***Investment in improving bargaining power*** – community level partners generally need explicit support in developing the capability (e.g. business skills training) and organisation (e.g. grower and contractor cooperatives) to negotiate arrangements
- ***Practices consistent with SFM*** – deals should be based on local and national understanding of best practice forestry – preferably on locally-defined elements of sustainable forest management
- ***Extension and technical support*** – especially in the early and late stages, when most forestry activity is needed, and at regular stages throughout to maintain mutual confidence through long growing cycles
- ***Third party roles*** – need to be developed e.g. for collateral and credit arrangements, arbitration if disagreement arises and facilitation of *inter-agency cooperation* to support partnerships and/or mitigate influences undermining them

- **Integration with local development plans** – partnership strategies can both bolster and benefit from government local and regional development plans, poverty reduction programmes and local livelihood improvement strategies

The *form* and structure of any one partnership will depend on its history, its primary function, objectives and technology, the scale and location involved and the type of management and staffing it can muster. The culture of a partnership is likely to be a function of its routines and rituals as much as its organisation and power structures. All of these factors in turn depend on the social, economic and environmental context in which the partnership finds itself. A set of possible *principles* for developing company-community partnerships can be derived from the lessons learned about failure and success (Box 30).

Box 30 Ten principles for better company-community deals

1. **Mutual respect** of each partner's legitimate aims
2. **Fair negotiation process** where partners can engage and make informed, transparent and free decisions
3. **Learning approach** – allowing room for disagreement and experimentation, treating deals as learning processes
4. **Realistic prospects of mutual profits** – requires work to accurately predict and secure partner benefits commensurate with their contributions
5. **Long-term commitment** to optimise the returns from deals – as strategic commercial, as well as socio-cultural and environmental, ventures (e.g. overcoming short term risk aversion caused by rises and falls in pulp markets) – since both trees and trust take a long time to develop
6. **Equitably shared risks** – accurate calculation and sharing of risks in production, market, social and environmental terms, planning for a mix of short-, medium- and long-term benefits and a range of low, medium and high risk investment opportunities, to attract both cautious and bold partners
7. **Sound business** – practical business development principles at the core, not exploitative relationships, not public relations exercises
8. **Sound livelihoods** – relationships focused on increasing capital assets of the poor, securing local rights and responsibilities, developing the capacities and comparative advantage of local institutions, and incorporating flexible and dynamic implementation paths
9. **Contribution to broader development strategies** and programmes of community empowerment, and integration or 'nesting' of partnerships within wider national and local land use and development frameworks
10. **Independent scrutiny** and evaluation of partnership proposals and monitoring of progress

The success factors and principles outlined above have been derived from analysis of the experience of a wide range of deals. It would be astonishing if any one partnership ever demonstrated them all. Surprise! – so far we have not found one that does. Nevertheless many partnership examples show valuable innovations in producing particular pieces of the jigsaw. Following Warner (2001b) we develop in Table 14 a set of elements for a desirable partnership contract or agreement, and highlight particular innovations from the examples we have reviewed.

Table 14 A set of elements for a desirable partnership contract or agreement, and highlight particular innovations from the examples we have reviewed

Key elements of partnership agreements	Innovations – examples
1. <i>Representatives from each partner</i>	New joint ventures in South Africa spell out percentage equity stakes of company, community and other partners, with joint planning at community level on this basis.
2. <i>Geographic boundaries and/or target population</i>	Explicit designations of marginal (non-crop) lands to be used e.g. Swiss Lumber (Ghana) joint venture and some South-East Asian outgrower schemes. Precise areas and yearly estimates of people to be involved in e.g. First Nation (Canada) joint ventures.
3. <i>Objectives – shared and individual</i>	Current objectives for pulp, future objectives for certified timber in Klabin, Brazil outgrower scheme. Maori groups retain hunting and sheep-grazing rights on land leased to Tasman Forest Industries, New Zealand – revenue shared.
4. <i>Resource commitments: finance, time, skills and expertise, equipment, influence – capacity to lever resources from others</i>	Each contract made specific to resource commitments of both parties in the Portuguese Soporcel outgrower scheme. In Ghana there are moves to use value of community social responsibility as equity in timber harvesting contracts, while in South Africa the value of community land is being considered as basis for share-holding in processing joint ventures.
5. <i>Joint workplan: activities, schedules, indicators, roles and responsibilities</i>	First Nation partnerships in Canada are jointly planned and implemented – forestry companies cannot afford to fall foul of communities with strongly exercised rights and effective local power.

<p>6. <i>Funding arrangements</i></p>	<p>Farmers can select from a menu of financing options in Australian farm forest joint ventures. Zimboard (Zimbabwe) offers tailored financial terms for outgrowers. In the Advance Agro (Thailand) scheme, growers can get loans either from the company or the state agricultural bank. In China, there is huge international investor finance wrapped up in tree-growing deals.</p>
<p>7. <i>Decision-making principles and grievance mechanisms</i></p>	<p>The Lower St Lawrence Model Forest project in Canada has mechanisms to combine group and individual decision-making. Ghana is seeking to institute formal dispute resolution committees at district level.</p>
<p>8. <i>Procedures for information exchange and internal communication</i></p>	<p>PT Perhutani's new 'managing the forest with the community' programme in Indonesia has involved a series of dialogues pushed for by communities. Structured and facilitated communications are found necessary in First Nation partnerships, Canada.</p>
<p>9. <i>Measures to strengthen capacity</i></p>	<p>South African forestry companies support community-level contractor and small enterprise capacity schemes linked to outgrowers and joint ventures.</p>
<p>10. <i>Measures to mitigate external risks</i></p>	<p>Design of land leasing for forestry in Georgia, USA, incorporates risk prediction and management measures.</p>
<p>11. <i>Strategy for communication with others</i></p>	<p>Aracruz in Brazil has an active public information service and regularly focuses on issues related to its outgrower schemes. Small growers in Australia are well networked and interact with many other public and civil institutions and the media.</p>
<p>12. <i>Procedures for monitoring and assessing impact</i></p>	<p>Westvaco, USA, works closely with tree farmers, provides a range of services, and assesses impacts of deals as part of its support for farmers gaining tree farm certification.</p>
<p>13. <i>Procedures for adaptation and termination</i></p>	<p>Forest tenant farming arrangements within the Lower St Lawrence Model Forest project, Canada are regularly revised and adapted; revenues from the forest management partnership are used to build up a fund for supporting those entering or exiting the scheme.</p>

10.2 Next steps and enduring challenges

This analysis suggests that there are some practical actions that could be usefully taken in a variety of contexts by companies, communities, governments, third parties and development assistance agencies. These are highlighted in Box 31.

Box 31 Towards better company-community forestry partnerships – some key actions for partners and supporters

What companies should do

- Sound out business options – think the unthinkable first, risk-benefit analysis second
- Develop, present and debate business objectives in terms of impacts on people's livelihoods
- Allow for operational flexibility e.g. control of budgets and decisions by field staff
- Get a head-start by going beyond basic government requirements incentive systems – try out different partnership models
- Partnerships with equals work best, so invest in capacity building to that end
- Develop 'responsibility' tools such as those guiding ethical supply chain management, corporate reporting, codes of conduct and socially responsible investment fund management – but ensure that these do not discriminate against small enterprises

What communities should do

- Sound out enterprise options – look especially for comparative advantage from land and location capability, low input costs and degrees of organisation
- Engage and develop claims with local government and civil society organisations
- Develop, present and debate livelihood objectives in terms of enterprise opportunities and impacts
- Build alliances and democratic organisations around bargaining for improved existing deals and pursuing new enterprise options
- Spread rights and responsibilities as widely as possible among community members

What governments should do

- Find and prioritise achievable improvements in policy and institutions – realistic steps to improve and decentralise the rule of law, frameworks for service provision, democratic process, and checks and balances on corporations
- Install effective legislative measures to complement voluntary enterprise social responsibility such as investment rules, tender processes, fiscal incentives and disclosure requirements
- Avoid creating artificial financial environments where partnerships would fall away without funding

What other third parties should do

- Support capability building in communities – especially business management and negotiation power

- Establish national and international links, lesson-sharing and impartial management and flow of market, social and technical information
- Provide complementary or alternative partnership facilitation services to government
- Combines carrots and sticks with corporations – collaborate when there is genuine opportunity to improve practice, but hit hard when transgressions are made (work on partnerships but make sure someone is also going through the corporate dustbins)
- Build on the experience of the cooperative movement and other forms of business organisation beyond the limited liability company
- Promote awareness, alliances and capacity on corporate responsibility issues, tools and solutions among small and medium enterprise
- Develop insurance systems for small-scale production and joint ventures

What donors should do

- Fund initiatives to build alliances and degrees of organisation at community level to investigate and negotiate for better partnerships
- Focus on ways of bringing partnership opportunities to the poorest groups
- Support the development of private sector associations with the representation and capacity of small and medium enterprises
- Promote ‘marriage guidance’ – initiatives that provide route maps to practical partnerships, making sense of opportunities and constraints from government and other external agencies, and providing local level information, facilitation and mediation services
- Support work to build understanding of the impacts of corporate social responsibility initiatives on development, how best to work with business to make progress towards poverty alleviation and sustainable development, and how best equip host country governments to take advantage of the corporate responsibility agenda
- Support work to develop and spread understanding of practical arrangements for efficient and equitable company-community partnerships

The work to date also suggests that a sustained effort is needed to fill key gaps in understanding and to develop approaches for addressing the practicalities involved in making partnerships work for sustainable development. Some of the items on this agenda for further work are noted in Box 32.

For partnerships to foster both better forestry and take on board the objective of local empowerment, some big challenges still need facing. In most contexts, practical steps need to be hammered out for making progress on the following:

Developing the partnership brokers. Some places are lucky – they have relatively well-resourced, competent, local authorities headed by an elected government that has the support of most of the local population. In such places, partnerships are likely to emerge with considerable support. Many more places are less fortunate – and as a result have all the more need for companies and communities to work together, but much the greater unlikelihood that they will. Partnership development agencies of various kinds are needed to:

Box 32 An agenda for further work on company-community partnership

Practical approaches, tactics and tips for developing partnerships that work in different contexts

Systems for tracking and improving output, process, quality and impact – of partnerships, based on criteria developed by partners such as efficiency, equity, sustainability, credibility, practicality

Identifying and building key roles needed for partnership development - in communities, companies, government, partnership design initiatives, amongst local third parties and internationally

Supporting community thinking on business and organisational forms - the potential and impact of partnerships on community: market standing, innovation, productivity, physical and financial resources, profitability, personnel performance and development, public responsibility

Developing company thinking on livelihoods and rights-based approaches – awareness and systems for monitoring and improving business strategy impacts on local assets, capabilities, activities, policies and institutions, shocks and vulnerabilities

Practical frameworks for understanding and action are needed. Business and livelihoods frameworks are notable for their capacity to frustrate those in, or working with, their target groups, since they are riddled with jargon – while companies get frustrated with the gobbledegook of management consultants, communities are sometimes forced to sit through would-be livelihoods improvers talking gibberish. However, tracks of analysis need to use frameworks proven to be helpful in improving things in the respective worlds of companies, communities and third parties and identifying these in key contexts should be the point of departure.

- Establish relationships with the inhabitants of a locality and be guided by their needs and priorities
- Generate and spread the physical, social and economic analysis
- Facilitate negotiations
- Provide legal advice and arbitration services
- Lobby for e.g. infrastructural development

Brokers may need to put particular emphasis on ensuring that partners pay attention to: small-scale and medium scale forestry and processing, greater community involvement in more capital-intensive roles such as haulage and processing, and conditions for contracting, outsourcing and employment.

Independent community development institutions

Such as local organisations developed around independent savings and credit schemes, trust funds and foundations, are an important route to developing capacity for brokering deals. They can offer both the institutional flexibility to react to community needs free of external influence and the potential for

equitable representation in decision-making. By providing a forum for equitable negotiation, such institutions can usefully redress imbalances in power or resource capabilities between partners. Because of their independence, they may more successfully leverage grants and finance from donors who are usually reluctant to directly fund the social programmes of private corporations. If formed as federations of local growers, users or processors they may well demonstrate how far limited resources can go. Representative community organisations can often do more with \$1,000 than external agencies can do with \$10,000.

Empowering the community partners – to benefit the poorest

Even the ‘best’ partnerships examined, whilst they have helped smallholders, have not (yet) raised poor people substantively out of poverty. For example in South Africa, the poorest only participate as contractors to those with land, and in India absentee landlords have pushed tenants off the land in joining partnership schemes. Few company-community deals have had empowerment as an explicit objective, but if forestry is to have a legitimate future in contexts of poverty – partnerships must make such objectives central.

Sharing downstream benefits

Few forestry deals yet involve much more than fibre production or management by communities. If community empowerment is indeed a central objective attention needs to be given to arrangements for revenue sharing and share ownership in downstream processing and other broader joint ventures. If the principle of benefits/equity commensurate with partners’ respective investments holds then communities’ investment of land that could have been used for other purposes should be included in this calculation. Furthermore, in the longer-term, to secure their production base, companies will need to contribute to provision of goods and services other than fibre. Much investment in community/producers associations with real representative status will be needed to make such dreams reality.

Turning corporate responsibility into enterprise responsibility

The history of corporate social responsibility is littered with cases of companies making exaggerated claims and engaging in window dressing and ‘reputation management’. The emerging global corporate accountability movement is demanding more fundamental improvements in corporate social and environmental responsibility, whilst ‘civil regulation’ is beginning to emerge from the pressures of civil society organisations to reform business practices. As we have discussed, all this can play into the hands of the big corporations – as those better able to respond to these pressures make gains, sometimes at the direct expense of small- and medium-scale enterprises in the South, which have fewer resources and capabilities to respond. The corporate social responsibility agenda may even have socially unacceptable impacts itself – shifting production to sectors that are not subject to scrutiny under the pressure of supply-chain led environmental or social initiatives.

There is a need to assess the implications of factors such as advantages of corporate scale and the commercial predisposition to drive out competition. Forms of enterprise partners beyond the limited liability company should be given greater attention. For example, cooperatives have a long history, sometimes vast memberships, and much to offer with their values of self-responsibility, democracy, equity and solidarity. The notion of social responsibility should encompass the full range of business organisations so that the focus is ‘enterprise’ responsibility rather than ‘corporate’ responsibility.

10.3 The future for company-community deals

Some of those involved in company-community forestry deals are taking action now with the future firmly in mind. Firms like Prima Woods in Ghana and Melcoffee in Vanuatu are involved in projects with communities, not in response to present raw material shortages, but in expectation of future demand from plantations as natural forests are depleted by others. Others, such as Sappi and Mondi in South Africa and PT Perhutani in Indonesia, are forming new relationships with communities in anticipation of increased pressure on land, which could squeeze out forestry. Meanwhile their partners – individual farmers or groups – are using present experience to develop business savvy and connections with broader markets. Communities are getting more organised. There are ever more cases of local groups setting up co-operatives (e.g. Indonesia), trusts (e.g. South Africa) or registered companies (e.g. Canada).



With practically defensible tenure and a national and local governance framework that is at least not biased against equitable partnerships, companies and communities can work together for mutual gain and a healthy forest. Much more than this – a greater depth and breadth of impact from partnerships – can be achieved if governance and cooperation systems are made the central focus. Then, partnerships can form a stable basis for sustainable forest management, thriving business and steadily improving local livelihoods.

The future that seems to be taking shape for company-community deals is one with more varied and more equal relationships. We can expect more self-started deals, nurtured by local governance, a greater diversity in the products and services that emerge, more sophisticated business models, and more instances where local groups develop and formalise their own new enterprises. With astute support, forestry companies and communities might turn a short and murky history of relatively raw deals into a long and bright future of mutual gain.

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Annexes

Annex A: Methodological overview

A research plan for the work on company-community forestry partnerships was put together by IIED in mid 1998.

Purpose and hypotheses of the research

The purpose of the research was to examine ways in which large- and small-scale private sector enterprises can work together with communities, so that both get what they need out of forest resources. Specifically, that corporate access to land and profits from fibre production can be accompanied both by the production of public benefits from forests, and by improved possibilities for communities to engage in commercial forestry for profit themselves. The research aimed to test two main linked hypotheses:

- (a) Partnerships between companies and communities can produce environmental and social forest goods and services as well as fibre.
- (b) The conditions can be identified under which partnerships are, and are not, efficient, equitable and sustainable.

Scope of the research

To test these hypotheses, the research expected to cover a wide range of different partnership types, in different contexts and countries. In each case the hypotheses were broken down into specific sub-hypotheses for investigation.

Analysis of a range of fibre-producing partnership types....

An initial global review identified partnerships showing elements of success or promise, or which provided educative lessons through their failure. The basic criterion for inclusion was that these partnerships produce fibre. The degree to which they also deliver other forest goods and services was then also investigated.

...in a range of contexts....

The research sought to understand the way in which particular types of partnership fare under different conditions and, conversely, to understand the importance of different contextual factors in defining the types of partnership which are made possible. Thus, a good balance of cases along a set of axes was attempted:

- Companies: large, medium and small scale
- Communities: strongly stratified/individualistic, organised in sub-groupings of farmers, users etc, organised as a community
- Forestry type: farm forestry, plantations, natural forest

- Currently realisable forest resource value: high, medium, low
- Driving agency: insider driven (by community or by company), outsider driven (by NGO or by government)
- Terms of trade stacked in favour of: company, community, both, neither
- Policy-institutional environment: supportive, constraining, neutral
- Level of aggregation of impact on efficiency, equity, sustainability: livelihood, household, community, landscape, nation

...in a selected group of countries....

The research investigated partnerships in a wide-range of countries selected in three ways. Firstly, through a *review of literature and un-documented experience* garnered from companies and collaborating organisations. This review included material from partnerships in northern and southern countries:

- Australia, Costa Rica, Guatemala, Honduras, Ireland, Mexico, New Zealand, Nicaragua, Philippines, Portugal, Solomon Islands, Thailand, the USA, Vanuatu and Zimbabwe

Secondly, through a range of short *case studies* in countries hosting particularly educative contexts and partnership types:

- Canada – where indigenous communities have formed companies and joint venture arrangements with other investors in forest management
- Ghana – where social responsibility agreements have been developed as part of tropical timber utilisation contracts
- Indonesia – where a long history of company-community relationships tell us much about the contexts under which conflict and cooperation arise

Thirdly, *country teams* were formed from a range of institutions in five countries where major changes are underway in the ownership and control of forests, and key instruments are being utilised to try and shape these changes:

- Brazil, China, India, Papua New Guinea and South Africa

The country teams in these five countries investigated in detail a number of key themes, including partnerships, within the IIED project on *Instruments for sustainable private sector forestry*. The teams combined both research and development approaches, i.e. they are not detached research teams but action-researchers with a range of capabilities, and including both governmental and private sector representation.

...answering a set of key questions....

What is the rationale for entering into partnership (both parties)?

- financial gain
- access to land and labour
- risk reduction, etc

How was the partnership negotiated?

- conflict resolution (mediation, brokering, etc.)
- means of participation of the parties

What are the terms of the partnership?

- ownerships and rights
- responsibilities and commitments
- conditions and caveats
- marketing arrangements (e.g. company monopsony or growers free to sell)
- credit and compensation payments
- organisational arrangements
- fixed package deals or flexible processes

How are the costs and benefits of partnership distributed?

- opportunity costs for both parties
- benefit flows to both parties (valuation)
- has scheme met objectives of both parties?

What is the policy/incentives/regulatory framework?

- enabling factors (both parties)
- constraining factors (both parties)

What are the social and environmental impacts of partnership operations?

- changes to overall livelihood patterns
- changes to surrounding environment

What are the institutional impacts and constraints?

- how communities are organised
- how programmes become fine-tuned in practice
- how skills, procedures, goals have developed through the process of partnership (both parties)

Annex B: Profiles of company-community forestry deals

Box 33 Pulp supplies for the future: Finnantara Intiga, West Kalimantan, Indonesia

The PT Finnantara Intiga outgrower scheme, run jointly by a Finnish and an Indonesian company – Stora Enso and Inhutani III – has been developed to produce pulpwood, which commenced in 1994. The scheme was initiated to avoid conflict with local people when land, owned by the government with local people holding traditional user rights, was allocated to timber production under the Timber Estate Programme of the Indonesian Government.

The villagers contribute village land, with many local people employed under the scheme. The company provides all other inputs, including the seedlings, and is responsible for maintaining, harvesting and replanting of plantations. The deal is that at harvest a village will receive 10% of the market value of the plantation timber. The company also provides villagers with seedlings of local multi-purpose trees and improved rubber tree clones, and has allocated resources for community development – particularly in support of agriculture.

Under this scheme, villagers are planting *Acacia mangium*, *A. crassicarpa* and *Eucalyptus pellita* on grassland and in bushland. The system of planting is dependent on original vegetation, topography and soil factors. The company has a target of establishing 50,000 ha to supply 10% of its requirements by 2003, with 22,000 ha already established. About 100 villages are currently participating, each planting about 200 ha. However, the pulp factory that the wood is meant to supply has not yet been built, and the rate of planting is slowing down as the government has withdrawn subsidies under its reforestation fund.

Source: Vuokko and Otsamo, 1998; Nawir and Calderon, 2002

Box 34 Public relations: Pioneer Tobacco (BAT), Brong Ahafo, Ghana

Since 1974, tobacco for local consumption in Ghana has been grown in the country rather than imported. The crop is grown exclusively by outgrowers, who sell cured leaf to the BAT-PTC-Rothmans-Meridien conglomerate that operates a monopoly in the country. In Brong Ahafo, where most tobacco is grown, stringent conditions are attached to membership of the out-growing scheme. One of these is that each land-owning out-grower must plant 500 trees per year. Officially this is to supply fuel to the tobacco-curing barns, but since the condition was introduced in 1985 none of the planted trees have been harvested as fuel for the barns. Instead the tobacco company uses free off-cuts from local forest reserves.

The true motive for encouraging tree-planting among tobacco out-growers appears to be to mitigate the negative image of the tobacco industry nationally and internationally. Pioneer Tobacco has recently embarked on a number of additional community reforestation exercises, along water-courses and at schools and churches. The company invests heavily in forestry, employing a full-time director and maintaining a large multi-species nursery where farmers can access free seedlings and technical advice.

Source: Interviews with company and community representatives, 2000

Box 35 Hardwood timber growing contracts with farmers: Swiss Lumber Company, Ghana

Unlike its neighbouring companies, the Swiss Lumber Company in south-west Ghana does not have a timber concession. Rather, the company has decided to try and meet its future timber needs by developing timber-growing contracts with farmers. The arrangements emphasise relatively slow growing indigenous hardwoods such as *Triplochiton scleroxylon*, *Khaya ivorensis* and *Entandrophragma angolense* rather than fast-growing exotics. The contracts also emphasise timber growing on degraded land, which is providing marginal yields, rather than competing with prime agricultural land.

The company provides four types of payments to farmers: a lump sum down-payment, a percentage share of the timber at harvest, an annual land rent, and first option on a weeding contract on the plantation. The percentage share and the down-payment vary inversely: the larger the initial down-payment the lower the farmer's share in the mature timber harvest. The farmers' share in the future timber harvest varies from 20-50%. Farmers are bound by their contract to give the company first option in the purchase of their share of the timber at prevailing market prices. Although this project is in its infancy, many farmers in the area have registered to participate, and there are signs that the promotion of joint ownership in the timber is ensuring that farmers are protecting the trees from bush fires and illegal harvesting.

Source: Kotey *et al*, 1998

Box 36 From concession to plantation: Prima Woods, Brong Ahafo, Ghana

A Ghanaian-owned timber company, Prima Woods, was granted a concession in Mehami, Brong Ahafo region, in 1991. Aware of the conflicts that other logging companies had experienced with local people, Prima Woods quickly entered into negotiations with community representatives at Mehami. Until the concession expired in 1994, a flat rate of compensation per cubic metre of wood extracted was paid to the residents of Mehami, who used the money to bring electricity to the village. Relations between the company and the community remained cordial.

Concessions in natural forest are becoming less of a viable option in Ghana. Looking to the future, Prima Woods is establishing plantations of teak (*Tectona grandis*) to supply timber in 15 – 20 years time. Not surprisingly, Mehami was chosen as one of the first sites. The company leased 120 ha from local landholders in 2000, paying out individual compensation, and hired 67 local people to clear and plant the teak. About 15 workers have been kept on to maintain the plantation.

Superficially, the arrangement between Prima Woods and Mehami is a simple lease of land, plus local employment on a small scale. But this arrangement is predicated on a high level of trust between the two sides. Prima Woods is keenly aware that it has no guarantee other than verbal agreements with landholders and community representatives that its company will be the beneficiary of the eventual harvest at Mehami, but it believes that the relationship it has built up with the community over the long-term makes the arrangement a best-bet option. It maintains its reputation in Mehami by donating to community projects – at present the construction of a police station.

The Prima Woods plantation has had unanticipated outcomes for local livelihoods. A number of local landholders have decided that if Prima Woods predicts that teak will turn out to be a profitable land use, then they too are willing to invest. Consequently a number of smaller private plantations have been set up, with management modelled on the Prima Woods initiative. Owners of these report that they may end up selling their teak to Prima Woods, but that they are eager to negotiate with competitors first.

Source: Interviews with company and community representatives, 2000

Box 37 Forest tenant farming partnerships for sustainable forest management: Lower St. Lawrence Model Forest Project, Quebec Province, Canada

The Lower St. Lawrence Model Forest has developed a form of partnership known as 'forest tenant farming'. Abitibi Consolidated Inc. (ACI), a large newsprint company, has entrusted the management of two large holdings (approximately 45,000 hectares) to the Model Forest corporation to allow the settlement of forest tenant farmers. The forest farmers individually manage timber resources in their section of the holding and collectively manage the territory's NTFPs (hunting, fishing and recreation). While they may sell their wood on the free market, ACI reserves the right to choose the destination of sawlogs. In return, the forest farmers pay a stumpage fee, a form of rent, which is administered by the Model Forest and must adhere to sustainable forest management guidelines through five-year plans, annual operational plans and financial forecasts.

The revenue from forest farmers is put to various uses: some is used to pay ACI's real estate taxes and forest protection fees (against fire and pests); another portion is used for infrastructure (main roads and bridges); some is put into a 'real estate fund', to make up for the cost of infrastructure built on ACI's land by tenant farmers who wish to pull out of the project; and the rest goes into a fund which aims at compensating the forest farmers if they end their activities, and at allowing dividends to the corporate landowner.

To date 26 farms have been established, averaging about 1,000 ha and after five seasons of operation the formula seems to be working. On average, the farmers' gross annual income is C\$50,000 (US\$31,000), which is well above the regional average of C\$28,000 and even above the provincial average of C\$41,000. The private partner is also benefiting from the farmers' forest tending as well as an improved corporate image. The model's success has attracted attention and it is currently being considered for extension to public land surrounding rural communities (90% of the province's commercial forest is under public tenure).

Source: Mayers, 2000

Box 38 A choice of outgrowing arrangements: Aracruz Cellulose, Brazil

Aracruz Cellulose has operated an out-grower scheme for pulpwood production since 1990. The company initiated the scheme to increase supply of wood fibre. Restrictions imposed after protests against companies owning large tracts of land had prevented the company from expanding its own plantations. The popularity of the scheme has encouraged the company to expand it to include the production of sawlogs.

The company offers growers three contract options varying in the extent of company inputs and the grower's need for financial assistance. It offers technical assistance and seedlings in all schemes. Growers may also receive fertiliser, ant killer and interest free loans, if desired. If the grower sells the wood to the company, the seedlings, fertiliser and ant killer is provided at no cost. Insurance and taxes arising from the agreement are paid by the company. Under contract, the company retains an agreed percentage of wood in payment for technical assistance and any financial assistance. For the remaining wood, the grower receives market price or better for the wood.

The growers are responsible for planting the seedlings, maintaining the plantation, harvesting the trees within 6-8 years, and transporting the logs to the company's nearest depot. If the grower sells to another purchaser, they must pay back the company expenses plus 10-20% for defaulting on the contract. In addition to receiving market price for the wood volume sold to the company, growers retain 3% of wood for their own use and receive free seedlings of native species for planting.

Growers are planting *Eucalyptus grandis* and *E. urophylla* in woodlots, which are harvested at 6-8 years and 12-14 years for pulpwood and sawlogs, respectively. To-date, 20,000 ha of the originally planned 28,000 ha have been established under the scheme. The enthusiasm of growers has resulted in the company increasing the planned area of plantation under this scheme to 60,000 ha. Almost 2,000 growers are involved in the scheme currently, each typically planting a 10 ha woodlot.

Source: Desmond and Race, 2000; Aracruz, 2001

Box 39 Timber outgrowers raise company image and cut land costs: Klabin, Brazil

Klabin is a pulp and paper company that operates four Farm Forestry Schemes, which vary according to the farmer's plot size and particular needs. At one extreme the company rents the farmers land, pays the owner 30% of the final revenue, and provides all the necessary material and labour inputs itself. At the opposite end of the spectrum, the company enters into a joint venture with the farmer. The other two schemes involve the farmer undertaking land preparation, tree planting and maintenance while the company provides a varying amount of material inputs. The farmers are under no obligation to sell the final product to the company. Annual income earned by the farmers varies considerably from US\$76 per hectare to US\$217 per hectare.

Klabin intends to extend its out-grower programme – citing the need to maintain a good company image and the increasing costs of land for plantations as the main reasons. The company seeks certification of its outgrowers (the company's own plantations are already certified) such that they may supply the demand from local furniture companies that sell to environmentally sensitive markets. Klabin has guaranteed 10 years of timber supply to these small local companies and hopes that the outgrowers will be able to supply them whilst it enters high-value wood processing markets without leaving the local companies high and dry.

Source: Viana et al, 2002

Box 40 Changes in land policy give new opportunities for land-lease and outgrowing schemes: Asia Pulp and Paper, Guangdong Province, China

The development of a system of household use contracts over collective forest land in China since the late 1970s has offered foreign investors increasing opportunities for negotiating raw material supplies with growers. Since 1995 Asia Pulp and Paper (APP) has set up operations in several provinces in China, with the eventual aim of establishing 1.3 million hectares of fast growing *Eucalyptus* and *Acacia* plantations throughout China. The largest share of investment has been in Guangdong Province, where 26,700 hectares are planted: 14,700 ha in Shaoguan and 12,000 ha in Qingyuan.

APP has combined with state-owned forestry companies to form new joint venture companies in each of Shaoguan and Qingyuan. The joint venture companies in turn have land-lease and outgrowing contracts with local farmers – in both locations a mix of arrangements with different collectives of households. The forestry industry bureaus that directly own the state companies take on multiple, and possibly conflicting roles. They part-own their respective joint venture companies, but also facilitate negotiations among the foreign company partner, local company partner, government departments and land-holding households. In addition, they manage contracts, dispersal of benefits and disputes between households and the joint venture. For this management role, which reduces transaction costs for the foreign company (see box below), the forestry industry bureaus receive 3.5 - 5% of the harvest price of the wood, leaving 25 - 26.5% to the participating households and 70% to APP.

To APP these schemes hold the promise of secure wood supplies at low production cost. The benefits to households are less certain. Plantations are expected give attractive returns mainly on degraded land. The schemes have provided employment in Qingyuan, but in Shaoguan the company opted to employ external labour, with the consequence that there has been much less harmony between APP and the forestry industry bureau here than in Qingyuan. Households are also excluded from any effective platform for bargaining in the schemes, since they are officially represented by the forestry bureaus.

Since the start of the scheme, Guangdong Province has backtracked on its understanding with APP – for environmental reasons authorities are reconsidering whether to allow the company to build processing mills on the Beijiang River. Part of the problem is poor communication between the provincial government and the local forestry industry bureaus who made the joint venture deals. In response, APP has completely cut back on new planting in the province until the impasse is resolved.

Source: Wenming et al, 2000

Box 41 Contract buying over the market rate to guarantee supplies: Wanda Bamboo Products, Deqing County, Zhejiang province, China

Wanda Bamboo Products Co. Ltd. was founded jointly by Xiaoxiang Bamboo Factory, a private domestic company, and a Taiwanese entrepreneur in 1989. The company produces bamboo products for export, mainly to Japan. At present, it operates two factories and one small processing plant, with a total turnover of US\$2 million in 1999.

In the early years of operation, the company purchased bamboo locally. However, as the company has expanded it has found it difficult to meet its requirements from local sources. Efforts to source bamboo inputs from outside Deqing County met with problems too, most notably high costs and low levels of reliability in supply or quality. In response the company sought to devolve the problem of sourcing high quality bamboo stems to middlemen. The middlemen in turn sought to establish supply agreements with community households.

Middlemen that supply bamboo or an acceptable quality are paid upon delivery per stem. To encourage commitment and high quality supplies, the company pays above market rates. For example, while the market price of moso bamboo in 2000 was about 20 yuan per 50 kilograms (US\$ 2.50), the company paid 30 yuan.

Source: Wenming *et al*, 2000

Box 42 A large scale multi-party joint venture to deal with thousands of farmers: Plantation Forest Timber Products, China

Some joint ventures with foreign companies in China for plantation establishment or forest regeneration involve a large number of groups. One example is a joint venture involving Plantation Forest Timber Products Ltd, Robabank, the International Finance Corporation and local forestry industry bureaus and farmers. It operates in three Provinces (Sichuan, Chongqing and Hubei) and is valued at US\$124 million. By involving the forestry industry bureaus as middlemen, the companies can avoid dealing with tens of thousands of farmers who contribute timber (the company claims to pay 600,000 farmers in Sichuan alone). In return the forestry industry bureaus receive a management fee and local governments are paid forestry charges.

Source: Landell-Mills, 1999

Box 43 Community (CBO) contracts company to manage forest concession: Sociedad Civil Impulsores Suchitecos, Petén, Guatemala

The Sociedad Civil Impulsores Suchitecos (SCIS) is a community-based organisation of 29 families, legally established in 1994. In 1998, SCIS was granted a 12,000 ha concession in the Multiple Use-Zone of the Mayan Biosphere Reserve. The concession is for 25 years, capable of being prolonged indefinitely if the terms of the contract are respected. SCIS had insufficient finance and equipment to harvest the 400 ha due in the first year of logging and decided to sub-contract to a private company. The San Nicolás Enterprise won the contract through a bidding process. The terms of the contract include both direct cash payments to the company and a share of the sale price of the wood that is processed into veneer. Marketing obligations are not included in the agreement, but the San Nicolás Enterprise is responsible for the primary processing of SCIS's timber, which is then sold in domestic and international markets. A local NGO, Fundación Naturaleza para la Vida (NPV), provides technical assistance to SCIS, as required by government policy on community concessions.

SCIS's experience is widely considered to be one of the most successful cases of community-based forestry in Central America, an interesting precedent for numerous similar processes in Guatemala and other nearby countries in that SCIS was the principal decision-making actor in the relationship with a private company. Logging and processing companies (with capital, technology and expertise) now need to compete among themselves and negotiate with communities, if they wish to access the resources necessary for their production operations. As these types of arrangements become more common, contracts are likely to become much more detailed, giving the company some form of guarantee for its investments, such as the right to receive the first option in the purchase of the timber at the prevailing market prices.

Source: Del Gatto, 2000

Box 44 Tripartite agreement (community-government-company) to manage a forest concession: Awas Tingni, MARENA and MADENSA, Nicaragua

Awas Tingni, one of the Mayagna indigenous communities on the Nicaraguan Atlantic coast, has been struggling since the early 1990s to achieve formal recognition of communal property rights over about 100,000 hectares of land, a case which has now gone to international courts. In the meantime, in 1994 a trilateral agreement was signed between the community of Awas Tingni, Maderas y Derivados de Nicaragua, S.A. (MADENSA), a timber company established in Nicaragua with foreign capital from the Dominican Republic, and the government of Nicaragua, represented by the Ministerio del Ambiente y de Recursos Naturales (MARENA), who agreed to recognise the Awas Tingni as the temporary holder of rights to the management area. The objective of the agreement was equitable and environmentally responsible commercial harvesting of timber on community lands.

In the terms of the agreement, a 5-year management plan drawn up jointly by the community and company is subject to inspection by the government, while annual contracts are drawn up to detail terms and prices of the planned harvesting operation, calculated to reflect market prices and the capital investment and the costs of management activities required. MADENSA also has a separate labour agreement giving preference to workers from the community. The government is responsible for close monitoring of the harvest cycle. After five years the agreement can be cancelled, in which

case the company retains the right of first refusal on timber sold from the management area for the next five years.

Unfortunately, the implementation of this innovative agreement proved even more difficult than its negotiation. From the very first year, MADENSA's business incentives gradually moved away from the partnership with Awas Tingni, due to offers of increasing amounts of timber from other local (and often uncertain) sources – a result of the lifting of a moratorium on logging activities together with the incapacity of the government to apply new forestry regulations. The Awas Tingni case demonstrates how firm and workable deals between companies and communities need strong backing from policy and enforcing institutions.

Source: Del Gatto, 2000

Box 45 Partners finance certification: Campesino Forestry Groups, Honduras

Campesino forestry groups in northern Honduras are community organisations of 5 – 50 active members that manage state forest under use agreements with the government. Harvesting, which is carried out according to 5-year management plans, is concentrated on commercially valuable species for export, such as mahogany (*Swietenia macrophylla*). Due to consumer demand, buyers in North America have been keen to access certified sources of high-value tropical hardwoods. In 1990, the main buyer in the United States, Smith & Hawken Inc, gave financial support to the campesino forestry groups to attain forest management certification – one of the first community-based management groups to achieve this. Formal FSC certificates were granted in 1997, and the campesino groups are using the publicity and prestige to develop markets for less well-known species.

Source: Markopoulos, 1999

Box 46 Demise of a joint venture: Boise Cascade and ejidos in Guerrero, Mexico

In 1995, Boise Cascade corporation, based in the US, signed a five-year agreement with the State of Guerrero in Mexico which gave Costa Grande Forest Products, a wholly-owned Boise Cascade subsidiary, exclusive rights to the timber from 400,000 ha of pine forests owned by 24 local ejidos (land-owning community groups). In exchange for the access to raw material, Boise Cascade agreed to provide much needed seasonal start-up capital, as well as larger capital investments in new sawmills, road improvements, and more technologically advanced harvesting equipment. Boise Cascade also agreed to train local workers on new equipment and silvicultural techniques. In financial terms, the agreement guaranteed ejidos net profits that were double those of previous years' returns.

Boise Cascade's joint venture in Guerrero aimed to harvest over 90,000 m³ of timber in each year of the agreement, all for export to the US. Boise Cascade was paying ejidos US\$60 per m³ of timber in 1996, three times the price offered by local sawmills, and paying local employees a daily wage of US\$4.75, which was well above the 1996 Mexican minimum wage.

Under Mexican law, Boise Cascade was not obliged to carry out an environmental impact assessment for its operations in Guerrero. The lack of an assessment, coupled with domestic controversy aroused by Boise Cascade's operations in old-growth forests in the Pacific Northwest, led many US and Mexican environmental groups to oppose the venture. As

evidence that Boise Cascade was contributing to deforestation in Guerrero, environmental groups pointed to the nearby ejido-owned El Balcon sawmill, which increased production from 3,000 m³ to 40,000 m³ between 1993-96, apparently in response to competition from Boise Cascade. Boise Cascade's reputation was further sullied by its association with the Governor of Guerrero, who resigned in 1996 following a police massacre of 17 farmers taking part in a protest against the logging activities of a local business tycoon.

In 1998 Boise Cascade closed its timber operations in Guerrero, citing an inconsistent and seasonal wood supply.

Source: Landell-Mills, 1999

Box 47 Land access and reforestation: Smurfit Cartón de Colombia, Colombia

Smurfit Cartón de Colombia, situated in the Andean region of Colombia, has been operating a scheme for the production of pulpwood since 1986. The scheme was initiated by the company to increase access to land adjacent to its own holdings, increase the future supply of wood, consolidate the forestry activity in neighbouring districts, support initiatives from its neighbouring landholders, involve more investors in forestry, and encourage widespread reforestation within the country.

Long-term contracts are sought with landholders, with the company undertaking all the establishment, maintenance and construction of secondary roads for harvesting. They will replace the plantation if damage occurs. Growers are responsible for paying the land taxes, and constructing the primary roads needed for harvesting. The contract details the percentage of wood volume allocated to the grower and the company, with the grower able to receive market price for their percentage rather than the wood.

The security of each partner's investment is protected under the contract. If the company decides to withdraw from the contract it must leave the plantation to the grower. If growers decide to withdraw from the contract, they must return the company's investment plus an additional 30%. If growers decide to sell the land, they must ensure the purchaser agrees to fulfill the contract.

Under this scheme, woodlots of hardwood (*Eucalyptus grandis*) and softwoods (*Pinus oocarpa*, *P. khesya* and *P. tecunumanii*) covering 3,860 ha have been established. A total of 56 growers are involved, with each typically planting about 69 ha. The eucalypt and pine plantations are managed in rotations of 15 and 8 years, respectively. Through the scheme, the company aims to access the wood needed to supply 10% of its future hardwood and softwood requirements.

Source: Desmond and Race, 2000

Box 48 Tailored outgrowing contracts: Border Timbers, Zimbabwe

Border Timbers has operated an out-grower scheme in Manicaland, Zimbabwe, since 1996 for the production of poles from eucalypt woodlots on a 10-12 year rotation. The company initiated the scheme to allow it greater flexibility in production from its own land, and aims to achieve a plantation area of 2,000 ha under the scheme, providing about 60% of its pole requirements. Currently the scheme involves 65 growers who have planted a total of 450 ha.

Under the out-grower scheme, Border Timbers offers growers some flexibility in production. Growers determine the production tasks for which they wish to accept responsibility (with advice from the company) and the company is responsible for the remaining tasks. Thus, the agreement may involve the company managing plantation activities partially or entirely. The financial arrangements vary accordingly. Border Timbers offers growers loans at 15% interest. The company guarantees to purchase the product at harvest at market prices.

Source: Desmond and Race, 2000

Box 49 Group outgrower schemes: Zimboard Products, Zimbabwe

Zimboard Products in Zimbabwe operates five outgrower schemes, which commenced between 1997 and 1999. Two schemes were initiated by the company to obtain additional supplies of wood for its pulp mill, as eucalypt pulpwood is expected to be in short supply in the future. The remaining three schemes were initiated by landholders wanting to generate income for agricultural or community development. From one scheme alone the company aims to obtain 60% of its annual eucalypt wood supply.

The schemes are run by Project Committees – comprising representatives of growers and the company. The company encourages plantations of *Eucalyptus grandis*, *E. saligna* and *E. regnans* in woodlots managed on 7-year rotations. The company offers growers technical advice and support, and guarantees to purchase the wood at market price. The company also provides loans for working capital at 15% interest to growers. Growers purchase seedlings from a commercial nursery, and are responsible for the establishment and maintenance of plantations. They also retain the low-grade residual wood.

In three schemes, there is just a single grower, planting 300 ha, 40 ha and 600 ha each. Cooperatives are involved in the remaining two schemes, comprised of 20 and 22 growers, and have established 300 ha and 500 ha plantations, respectively.

Source: Desmond and Race, 2000

Box 50 End of a long-term outgrowing scheme: Picop, Philippines

The Paper Industries Corporation of the Philippines (Picop) developed an out-grower scheme for local landholders in order to seek additional plantation resources to partially supply pulpwood, as its 'concession' forests were becoming depleted. The company was also motivated by the opportunity it would provide to strengthen its relationship with local communities through the sharing of benefits.

In 1968, Picop began to encourage farmers to grow *Albizia falcataria* on 8-year rotations on marginal lands for pulpwood. Under the out-grower scheme, it agreed to provide farmers with planting stock and technical advice, and assured a market for the product at a guaranteed minimum price. The company also developed the necessary road infrastructure and a strong extension service. In return, the growers agreed to give Picop first right of refusal of the trees, after which they could sell to other buyers.

In its early days the scheme worked with landless farmers, helping them to obtain legal title over smallholdings. Farmers who benefited from the scheme were those who had settled on land classified as alienable and disposable (i.e. so could be purchased/leased for private use), had farms of about 11 ha (i.e. sufficient land to dedicate to long-term ventures), and were growing subsistence crops or other intensive management systems that created under-utilised land. Typically, these farmers were producing low-input crops, had grazing livestock or were undertaking other extensive farming.

Over time, the Picop scheme attracted other local farmers into tree growing, which in turn attracted other wood using industries and buyers into the area, so that a broader production and trading structure emerged: most growers eventually sold to local trading cooperatives (which evolved from producer associations with the help of an USAID project), and most users, including Picop, bought from the latter rather than directly from farmers.

However, over the last decade, cheaper *A. falcataria* from Malaysia and Indonesia undercut the outgrower scheme as farmers chose to plant other crops rather than the less profitable timber. The scheme also claimed less of the interest and energies of Picop's new management – who were immersed in trying to solve the company's considerable financial troubles. In October 2001, Picop announced that it was closing down all operations, citing the low prices of imported products and delays in government approval of its management plan as the reasons for its closure. In response, the government proposed that Picop would be able to continue operating if the company sourced more of its raw materials through co-management arrangements with government, guaranteeing greater benefits to local people. The future of the Philippines' largest manufacturer of wood and paper products remains under discussion.

Sources: Roberts and Dubois, 1996; Arnold, 1997; Desmond and Race, 2000; Dumlao, 2001; Alluad, 2001; Arnold, 2002; Nawir, 2002.

Box 51 Out-growing eucalyptus pulp beats alternative land uses: Advance Agro PLC (Soon Hua Seng Group), Thailand

Under a scheme started in 1992 to supply its new pulp mill Advance Agro operates a clonal nursery (as a profit centre), provides agricultural and silvicultural advice through extension workers, coordinates harvesting and transport contractors, and offers a guaranteed price to farmers. Smallholders, with average farm sizes of 10 ha, chose not to avail themselves of company finance but secured establishment loans from the state agricultural bank. With an average rotation length of four years, current mean annual increment of 28 m³/hectare/annum farmers are securing a mean net cash flow per annum of US\$343 per hectare. Given the decreasing price for alternative crops such as corn and tapioca, fibre growing seems to be an attractive option for many farmers in the area. Previously degraded lands have been brought back into production and in 1998 supplied 1.6 million tonnes to the mills.

Source: Gilliland, 1999

Box 52 Contract tree farming in Thailand: the Phoenix Pulp and Paper Company

The Thai government introduced a 'Four Sector Cooperation Plan for Agricultural and Industrial Development' in 1988 to encourage partnerships among government, farmers, agri-business and financial institutions. This policy has had an important effect on the pulp and paper industry, enabling a number of timber outgrower schemes. One of the largest producers, the Phoenix Pulp and Paper company, has had little success with large-scale plantations and now sources all of its raw materials from small-scale farmers, through direct purchase or outgrower agreements. Individual outgrowers sign detailed contracts with the company, guaranteeing a pre-determined harvest price, but obliging them to sell their full crop to the company.

Out-growing of bamboo and eucalyptus has become a popular option among farmers in a 100 km radius of the factory, delivering much better returns to labour than the traditional alternative cash crops kenaf, sugarcane and cassava, even though the price guaranteed by the company has remained below the price achievable on the open market. Some farmers have responded by renegeing on the agreement and selling to other companies. Increasing competition for raw materials among paper manufacturers should see improved contractual terms for outgrowers. Other hopes are that the schemes will become more flexible, to allow management of trees for multiple products, and government assistance with extension services and support of farmers' groups.

Source: Makarabhirom and Mochida, 1999

Box 53 An informal out-grower scheme: Kolombangara Forest Products Ltd, Solomon Islands

The company commenced the outgrower scheme in 1989 to produce additional sawlogs for its mill. Through this initiative, the company aimed to promote sustainable forest plantation management in the Solomon Islands, and to engender good relations with surrounding communities. The scheme is implemented on Kolombangara Island, in the Solomon Islands.

Under this scheme, the company will purchase logs from growers. The company provides seedlings and silvicultural advice. The growers are responsible for the establishment and management of plantations. No finance is offered by the company. These arrangements

have no contractual basis and so there is no formal commitment from the growers to sell wood to the sawmill. The growers retain residual wood for their own use. Those who have adopted agroforestry systems also benefit from fruit and vegetables produced on the land as well as timber.

Currently there are 100 growers participating in the scheme, who have planted 1-2 ha in woodlots or agroforestry systems. Species planted are *E. deglupta*, *Gmelina arborea* and *Tectona grandis*. About 200 ha have been planted, with the company encouraging expansion of this area by 30 ha/year. It is expected that the growers will harvest the trees after about 16 years.

Source: Desmond and Race, 2000

Box 54 Outgrowing on a small scale: Melcoffee Sawmill, Vanuatu

In 1996, Melcoffee Sawmill commenced a scheme with local growers at East Coast Santo to produce sawlogs for markets in Asia, Noumea and Australia. The scheme was initiated by the company to gain access to an expanded resource for the future while helping landholders to retain their economic independence.

The sawmill provides growers with seedlings, as well as management and technical support to help plant and maintain the trees. At harvest, the company pays market price for the timber. The growers are responsible for the establishment and maintenance of trees, and are allowed to retain the low-grade timber from the trees for their own use.

About 50 growers are involved in the scheme, planting 1-2 ha each of *Endospermum medullosum* in woodlots and agroforestry systems. About 100 ha of the planned 400-500 ha have been planted so far, with the trees expected to be harvested after 15-20 years.

Source: Desmond and Race, 2000

Box 55 Farm-forest joint ventures in Australia

In Australia, joint venture arrangements of three different types have contributed to the establishment of some 82,900 ha, or 8% of the country's plantation estate, since the mid-1980s. Firstly, lease joint ventures – whereby the farmer signs over the land in a lease to the industry – are attractive to commercial farmers and small-area landholders as regular payments are made and indexed over an agreed period. With annual lease payments ranging between US\$90-170/hectare/year (an internal rate of return of 7-18%) returns are considerably higher than many neighbouring grazing enterprises. Secondly, cropshare joint ventures are those where the landholder and industry/government partners contribute inputs and proportionally share returns at harvest, based on the market price. Cropshare schemes often attract under-utilised agricultural land – often with poor access and low productivity – which does not always suit industry needs. Thirdly, market joint ventures guarantee a sale for the grower, usually based on market price at the time of harvest. The grower is required to offer the industry partner the first option of purchase, however if a better price can be found, the grower may sell to another purchaser.

Source: Curtis and Race, 1998

Box 56 Attracting members to a joint venture scheme: ANM, Australia

In the mid-1980s, Australian Newsprint Mills (ANM) embarked on a joint investment in plantation forestry with one farm in New South Wales. Over the next 15 years the joint venture evolved and grew to include a number of new activities. For example, the farm now operates a nursery to supply ANM with seedlings. The success of this flexible risk-sharing approach to farm forestry has attracted interest in the area. Now about 12 joint ventures of varying sizes exist between ANM and local farmers.

Source: Guijt and Race, 1998

Box 57 Land lease scheme for Maori land: Tasman Forest Industries, New Zealand

Tasman Forest Industries have been running a land lease scheme on Maori land since 1993, for the production of pulpwood. About one-third of the company's plantation estate is located Maori land. The scheme was initiated by the company to access additional wood fibre for its pulp mill.

The company leases land from Maori groups and manages the development and maintenance of the trees. The period of the lease allows the company to develop plantations for two treecrop rotations. The landholders retain hunting rights and may graze sheep under the plantation if desired. The management of vermin control is undertaken jointly.

To-date, 27 owners are involved in the scheme, each leasing about 200 ha to the company. Under this scheme eucalypt (*E. nitens*, *E. fastigata* and *E. globulus*) woodlots have been planted over 11,000 ha, with harvest expected after 11 years. The company plans to develop about 20,000 ha of plantations under this scheme.

Source: Desmond and Race, 2000



Box 58 Contract growing through a subsidiary company: Soporcel, Portugal

Since 1990, the Lisbon-based company Soporcel has operated an out-grower scheme through its subsidiary company Emporsil for the production of pulpwood. Soporcel established Emporsil to manage its own plantations and to offer partnerships to landholders to access additional wood supplies.

Under this out-grower scheme, Emporsil undertakes plantation establishment and maintenance with funds supplied by Soporcel, and guarantees the success of the plantation. Growers provide the necessary land, and may provide labour and machinery if they wish. Proportional to their input, growers retain a percentage of roundwood production, which Soporcel agrees to purchase at market price at the time of harvest. Contracts last through to the harvest of the third rotation. Contract arrangements may allow growers to retain hunting and other rights to the land placed under plantation.

Under this scheme, 10,000 ha of a planned 30,000 ha have been planted to-date with *Eucalyptus globulus* for pulpwood. Typically, growers plant woodlots of 20 - 40 ha in area, which are managed on 12-year rotations.

Source: Desmond and Race, 2000

Box 59 State enterprises can also make profits with farmers: Coillte Forest Partnership Scheme, Ireland

Coillte, Ireland's autonomous self-financing state forestry corporation, runs a Forest Partnership Scheme with farmers for planting on their land. The scheme has been developed as an alternative to purchasing land for afforestation and is a form of joint venture where farmers provide land to Coillte to plant. In return Coillte shares both the income from the afforestation grants and, later, the revenue from timber sales with the landowner. The scheme allows Coillte to increase production and offers farmers a form of tax-free income. To date there are 216 such schemes involving 4,481 hectares.

Source: Landell-Mills and Ford, 1999

Box 60 Land leasing in Georgia, USA

In recent years, growing demand for wood in the southern USA has made forestry a more attractive option for landowners. However, many do not have experience in rearing trees, so a popular option is to lease out marginal crop and pasture lands to forestry companies to raise plantations of pine. Five types of contract are possible: land lease and outright purchase of timber, lease of both land and timber, land lease with cutting contract, management and cutting contract, or incremental arrangements, in which the landowner is credited each year with a portion of the estimated final value of the timber.

One of the main advantages from the landowners' point of view is the chance to spread risk by diversifying out from annual crop production and guaranteeing a steady high-average annual income from at least part of their land. The risk of crop failure is shifted to the forestry company. On the other hand, many landowners have entered into contracts without considering all their options or negotiating a better deal for themselves. Some of the important considerations are whether pine plantations are the most profitable option for specific tracts of land, what the tax implications are of the various arrangements and how the land will be left once the forestry company completes the final harvest.

Farmers and landowners in the United States are fortunate to be protected by well-developed systems of legal protection and access to advice on investment opportunities. They also enjoy a relatively stable economy so that future profit margins can be forecast with accuracy and long-term investments make sense. Almost three-quarters of forestry land lease contracts in Georgia are for periods of over 20 years.

Source: Dangerfield *et al*, 1998

Box 61 Purchase agreements: Westvaco Cooperative Forest Management, USA

Westvaco, a large pulp and paper company, is currently trying to reduce its landholding of 1.3 million ha of forest in the eastern USA. Simultaneously, the company is making efforts to woo smaller landowners into long-term partnerships under a system of 'Cooperative Forest Management'. The company offers landowners assistance with management planning, advice on harvesting and sales, estimates of standing tree volume, supply of seedlings and assistance in gaining American Tree Farm certification. Some of these services are free while others carry charges. In return for the array of services, the company requires participating landowners to allow Westvaco to submit a bid for any forest products put up for sale. So far more than 2,800 landowners operating 1.4 million ha of forest are engaged in the Westvaco scheme.

Source: Westvaco, 2001