

# Production-Protection

## Community Oil Palm and Production-Protection workshop

*Monrovia, 18 and 19 April 2016*

### *Conference Report*

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## 1. Introduction

1. On April 18-19 2016, IDH, the FDA and the NBC hosted a meeting to design Production-Protection Agreements within a community oil palm outgrower scheme. The invited group of participants from companies, communities, government and NGOs built a roadmap towards the establishment of pilot Community oil palm outgrower schemes and Production-Protection Agreements before the end of 2016.
2. **This report captures the main points made by participants and the thinking that was stimulated by the discussion.**
3. The aim of the two day workshop was to clarify the Production-Protection Agreement concept and seek consensus on the conditions to be met by the Community Oil Palm outgrower model so that many communities can benefit from outgrower schemes and so that local and national objectives for conserving forest can be met;
4. We agreed that conditions need to be acceptable to all parties, fit to the community context(s) in the concession areas and technically feasible and commercially viable.
5. It was also the aim to draft a 'roadmap' or implementation plan towards the first COP-PPA pilots within the 2016 calendar year, and to identify aspects that need to be clarified and resolved through additional consultation and/or research before pilots can be started.

6. The two day workshop took place in Mamba Point hotel in Monrovia. The main topics for discussion were:
  - Models for community oil palm development and the commercial, social and conservation considerations
  - Financial and risk-sharing arrangements for community oil palm development with production protection agreements
  - Production-Protection Agreements and experience of conservation agreements and co-management
  - The organizing and coordination of community oil palm Production-Protection pilots
  - Developing a "road map" for implementing pilots
7. The event brought clarity and agreement on the way ahead and resulted in a statement from the participants on their commitment to developing and testing community oil palm and Production-Protection Agreements in 2016.

## **2. Community Oil Palm model: Commercial, social and conservation considerations**

8. The purpose of this discussion was to clarify the type of outgrower scheme that may be developed, so that we can see:
  - How a Production-Protection Agreement (PPA) can be built into this model;
  - What safeguards need to be put in place to ensure that the outgrower model works for conservation and communities, as well commercially?
9. Outgrower models have been discussed for many years through several initiatives, without resulting in practical progress. Participants at this event wanted to learn from this experience but not go back over old ground.
10. In fact, the companies are clear about the outgrower model that they wish to support. It is largely determined by the commercial and operational realities faced by both concessionaires and potential outgrowers. Companies favor the "fully managed" model in which community members are involved as employees and those who contribute land take a share in the business. The intention is that the "fully managed" arrangement over time evolves into an arrangement that allows outgrowers to take on greater responsibility and control as producers. The model would evolve over phases:
  - Phase I: Company develops and manages land
  - Phase II: Joint Company-Community management of land
  - Phase III: Community fully manages land
11. Potential outgrowers interviewed by the Community Needs Assessment survey team commissioned by GROW also said they are likely to want to begin with the fully managed model, because of the benefit of immediate employment and because they recognize that only the companies have the machinery, finance, skills and inputs required for the initial land preparation and planting.

12. The discussion therefore focused on this general model of a fully managed outgrowers scheme, evolving into a joint and then community-led scheme (for more information, in the SHARP/GROW<sup>1</sup> report this model is referred to as 'model 2').
13. Commercial, community and conservation considerations associated with the model were identified:

### Commercial considerations

14. Efficient production requires units of 60 Hectares or more and a distance from the mill of less than 80km. Outgrowers that are small and dispersed are less efficient (illustrate on left side of diagram).

15. Greenfield development is costly and technically demanding. Land preparation requires heavy machinery. The quality of cultivation and inputs must be high from beginning, or productivity of plants is compromised long-term.

16. There are commercial risks to both the company and outgrowers. As one participant noted, the viability of community-based palm oil outgrowing in Liberia is unproven.

17. New governance mechanisms are needed to ensure transparent and accountable decision making and mitigate tensions that may emerge between concession holder and

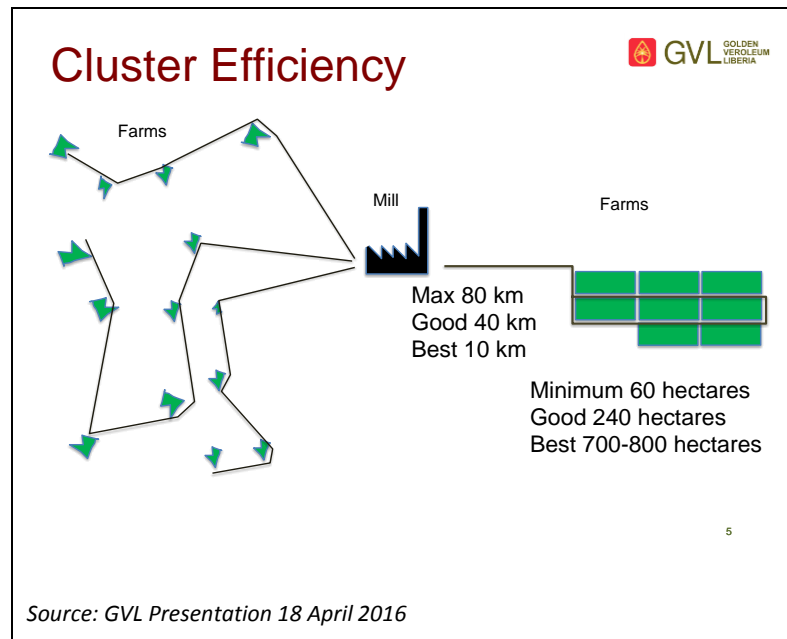
outgrowers, related to 1) price setting, 2) grievances settlement and 3) new land claims that may arise, particularly following enactment of the Land Act. From a participant came the view that communities often contain overlapping claims for land and so there will be a need to clarify the status of the land available for outgrowers and match this with the farmers best able to use this land. The custom is that only local people can have tree crops, therefore outgrowers cannot be "strangers".

18. Work is being done in April-June 2016, led by the National Bureau of Concessions with GROW and conducted by a LTS consultant, to develop the financial model for the outgrowers, and provide recommendations on the organizational model. This assignment initially did not include production-protection in its deliverables, but will now also include recommendations for the COP PPA pilots.

### Community consideration

19. The required scale of efficient production means that community must aggregate land and enter into contracts with the concession holder and possibly an external financier. Hence, the community will need an organizational structure and legal entity, such as a cooperative, a community corporation or some other. This is an opportunity to move forward as a community but also a challenge. Participants highlighted the need for ensuring inclusivity, mechanisms for managing potential conflicts, but also providing entrepreneurial incentives.

20. The wish of communities, companies and government is likely to be that outgrowers will increase their involvement. The outgrower arrangement can change over time so that outgrowers become fully responsible for the production of fresh fruit bunches. Views on how long this transition will take varied greatly, from 4-5 years to 20 years (a full production cycle for oil palms). Practically, it depends



<sup>1</sup> <http://www.sharp-partnership.org/objects/pdfs/liberia-outgrowers-introduction>

upon how long the outgrowers take to develop the necessary skills and capital. It will be important to have realistic and shared expectations of communities and companies on this timeframe.

21. "Who is the community?" and "who is the outgrower?" are critical questions raised by the speakers and participants. Cooperatives membership options discussed included A) all community members; B) the community members on whose land the palm oil is planted; C) the outgrowers/ employees, who could lease land from the community. In the latter case, it needs to be clear that these outgrower / employees must be part of the community. Participants stressed and agreed that, in line with the concession agreements, the intention of the outgrower model is *not* to have the community lease out its land to outsiders.
22. For Production-Protection Agreements, it is important that benefits of the palm oil are widespread so that the community as a whole has a stake in the success of the Community Oil Palm scheme.
23. Different levels of community were considered:

<b>Outgrowers</b>	<i>Those contributing land or other assets and taking a share in the venture.</i>
<b>Employees</b>	<i>Those employed under the 'fully managed' arrangement</i>
<b>Project affected community</b>	<i>Those affected by the development of the concession; negatively through social and environmental impacts, and positively through downstream business creation etc.</i>
<b>Forest-using community</b>	<i>The wider community that uses and potentially degrades the forest area that is to be conserved under the Production-Protection Agreement.</i>

24. And within these different levels of community involvement there are many different interests; including absentee land owners or community leaders in the diaspora, and including forest users from outside the concession communities (e.g. miners, pitsawyers, hunters, charcoal producers). The keynote speaker pointed out that Liberian forestry law allows communities to be self-defining<sup>2</sup>. The PPAs therefore relate to a large community, with a variety of economic activity.
25. Benefit sharing mechanisms are required that reflect these different levels of involvement. As a general rule, those with an investment stake or employment benefit directly, the project affected community benefits from employment, compensation measures and downstream opportunities. The wider forest-using community may benefit from the general taxation raised from the concession and is also likely to need special incentives to change land use practices (e.g. reducing unsustainable forest uses). (see also the section on 'benefit sharing mechanism')
26. Oil palm concession holders explained that they already have Community Development Funds and community-based institutions to administer these funds. This currently is a landscape level fund. The benefit sharing mechanism of the Production-Protection Agreement would need to spread benefits from the outgrowers and project-affected community to the wider forest-using community, so additional arrangements may be required.
27. Oil palm concession holders also highlighted the importance of 'downstream' industries that service the company and the population of employees. There is a big demand for trades such as builders, carpenters, plumbers etc. and for food and catering suppliers. This demand is currently unmet, so there is an opportunity to develop businesses and jobs. To do so, it would help if agencies and donors could engage in a way that gives focus and longevity, not just through sporadic projects.
28. The level of benefit and incentive for outgrowers was discussed, prompted by the earlier presentation by GVL which suggested that prosperity, not subsistence, should be the aim. Thus an annual income of \$3,000 or more should be the aspiration; this being equivalent to earnings from

<sup>2</sup> Referring to the Community Right with Respect to Forest Land Law.

employment. Participants agreed that the incentive for the community as a whole should be greater than the opportunity cost of the land use practices they would be asked to forgo to avoid deforestation.

**Conservation considerations**

- 29. Companies are committed to leaving High Carbon Stock and High Conservation Value forest untouched (HCS-HCV). Without intervention, however, these are likely to be degraded by increasing shifting agriculture, pitsawing, charcoal production and other uses. Economic development in the region, and increased road access, also increase risk of logging and land clearing for other agricultural community production.
- 30. FDA considers the set-aside forest to be a contribution to the national commitment to conserve 30% of the national forest<sup>3</sup>. The legal status of the set-aside forest is not yet defined, but it is most likely to be Community Forest. There are specific laws and regulations within forestry law for the establishment and management of community forests with a conservation priority<sup>4</sup>.
- 31. Green Growth Plans will be developed at landscape level (in a multi-stakeholder setting), to identify the conservation hotspots / corridors inside or nearby the concession landscape. The Production-Protection Agreements will focus on these locations.
- 32. It was discussed that not all communities that have user rights over a forest may want to have land available for outgrower development. These communities, it was discussed, need to be equally consulted and approached, and alternative benefits and compensation need to be offered.
- 33. The complementary Norway funded World Bank Liberia Forest Sector project, which shared its approach and plans during the workshop, will work in the wider landscapes, with an emphasis on sustainable agriculture, protected areas and strengthening the capacity of forestry institutions.

**Risks to conservation and communities, with potential safeguards**

- 34. Participants discussed the risks and identified possible safeguards for the model. These safeguards are actions, or guiding principles, that a COP model could follow in order to support a successful Production-Protection Agreement.

Community risks	Community safeguards
Risk (real and perceived) of exploitation by company or elites.	Fair and broad distribution of benefits.
Monopoly status of company can be abused	Neutral broker to help resolve intra-community and community-company disagreements.
Conflict if some members in community become wealthy and others do not.	Local design of model/agreements with all parties involved.
Farmers with small land to contribute to scheme may not be able to achieve income or food security.	Long term support to building community structures (co-op, community support, protection related groups)
Community becomes liable for loan <u>and</u> for the protection agreement.	Government and NGOs playing a stronger leadership role in defining/mediating roles and responsibilities.
Community level organization will take time and resources to develop (e.g. coops).	
Ownership/rights not clear in law or practice.	

<sup>3</sup> This commitment is made in the *National Forest Reform Law*, 2016.  
<sup>4</sup> Set out in *Regulations to the Community Rights Law with Respect to Forest Land*, July 2011.

**Conservation risks associated with the Community Oil Palm model and possible safeguards**

Conservation risks	Conservation safeguards
<p>Community cannot control all forest users. (those in and outside the concession and the local community)</p> <p>Unless all or most people benefit there will not be sufficient opportunity of incentive for people to avoid over-exploiting the forest.</p> <p>Employment, incomes, roads etc. from plantation will increase population and consumption, hence accelerate deforestation.</p>	<p>Fair and broad distribution of benefits.</p> <p>Incentives for outgrowers to meet conservation standards.</p> <p>Conservation “group” at local level to clarify area, means of protection etc.</p> <p>Community, company and government all working to monitor and uphold protection agreement.</p>

**Key points on Community Oil Palm model**

- There is already 80% consensus about the model amongst companies and communities and work underway to finalize the organization and economics.
- The greater challenge is to establish with communities an effective and fair way in which to engage and distribute benefits and responsibilities, given the multiple interests.
- Commercial, social and environmental risks require safeguards and a willingness on all sides to learn through pilot schemes.

**3. Financial facility and the sharing of risks and benefits**

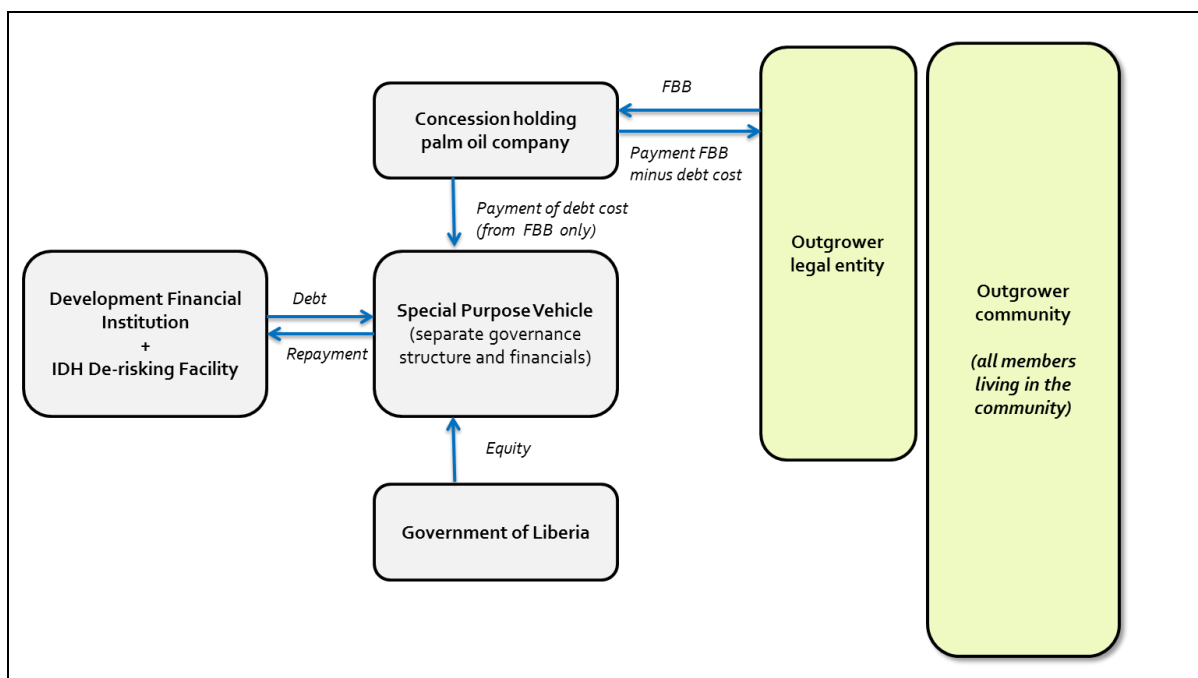
35. The IDH-NICFI project is ground-breaking because it provides a solution to the funding problem which has long prevented progress with outgrowers in Liberia.
36. The presentation by IDH on financing explained how the costs and risks for community palm oil in Liberia are very high:
  - Greenfield palm oil development is, in any case, very expensive;
  - Agriculture development is inherently risky because of factors such as weather, perishability, seasonality and price volatility.
  - Risks are especially high in Liberia; investors see a high country risk, a lack of operational & financial track record of communities and weak regulatory structures (laws and enforcement capability).
  - Reputational risk for palm oil development is particularly high, due to its direct association with deforestation.
37. There is no appetite amongst local or international banks to take this kind of risk. Not even Development Banks will invest at the moment. What IDH brings to unlock this situation is **risk-sharing facility** (a donor funded guarantee that is willing to share financial loss of the project). This can catalyze investments by 3<sup>rd</sup> party investors (DFIs), together with the more strategic investors, i.e. the concession holders, the outgrowers and the Government of Liberia.
38. Although the setting up of such a project finance approach is fairly normal in other industries for long-term projects (e.g. infrastructure), the use of this for community oil palm and the direct link to

Production-Protection Agreements is highly innovative. IDH, as the anchor investor, will insist on certain special conditions for investment:

- **Production-Protection Agreements** are legally in place, Including clear roles & responsibilities and guidance on monitoring and enforcement.
- A **reputable (development) financial institution** is part of the risk-sharing financing structure.
- An **Agreed upon Outgrower model** and legal entity structure between GOL, Concession Holder and outgrowers, with the company providing management of the outgrower oil palm in the first instance.
- Clear **governance** of financing scheme, including SPV management & accountability.
- The approach must be clearly **scalable beyond the initial pilots**.

39. The role of an investor is different from a donor. An investor will make funds available when the conditions for that investment have been met. It is up to the companies, communities and the organizations supporting them to come up with a credible plan for meeting these criteria. IDH and DFIs will need to see a financial plan, and operational plan, a governance structure for the project, legal agreements and evidence of credible stakeholder engagement, monitoring and grievance resolution.

#### De-risking structure: A project Financing Approach



40. Participants at the workshop held a vigorous discussion of this financial arrangement, raising questions about governance and transparency in particular. In response IDH explained that this type of financial facility is normal for funding special projects, like new infrastructure. The Special Purpose Vehicle (SPV) at the heart of the arrangement is there to act as the funding agent on behalf of the principal investors; the DFI, the palm oil companies and the government of Liberia. It helps to achieve a balance of interest and it can be designed so that decisions and funding flows are transparent, and risks are properly shared.

41. Participants sought clarity on whether the SPV could be the employer and source of pay, with the response that the SPV is only a financial facility and the concession holders would likely continue to be the employers, although there are different options that could be worked out.
42. Big questions were also raised in discussion about the legal entity for community oil palm. These looped back to the earlier debate about "Who is the outgrower?" and included practical questions about how a legal entity can be formed amongst potentially many outgrowers, and how this entity relates to and shares benefits (and risks) with the wider community.
43. A participant asked what would happen if there was a noncompliance with the PPA, and specifically could the investment be withdrawn? The answer to this was that the investment would not be withdrawn directly, however penalties would be imposed on the noncompliant entity – in the form of monetary penalties (community) and monetary and 'non-scaling' penalties for the Concession Holder or GOL, i.e. the Derisking Facility will not take on new communities if the Concession Holder or GOL does not fulfill its commitment under the PPA.

#### **Key points on the financial facility**

- The financial facility unlocks the problem of outgrower financing, by reducing the risk to other investors.
- The financial mechanism is fairly normal, but the link to Production-Protection Agreements is innovative and is a key condition of financing for community oil palm.
- Transparent governance and inclusive decision making is a key issue to resolve in the project, as is the organization of a legal entity for the outgrowers and the agreement of compliance/grievance mechanisms.

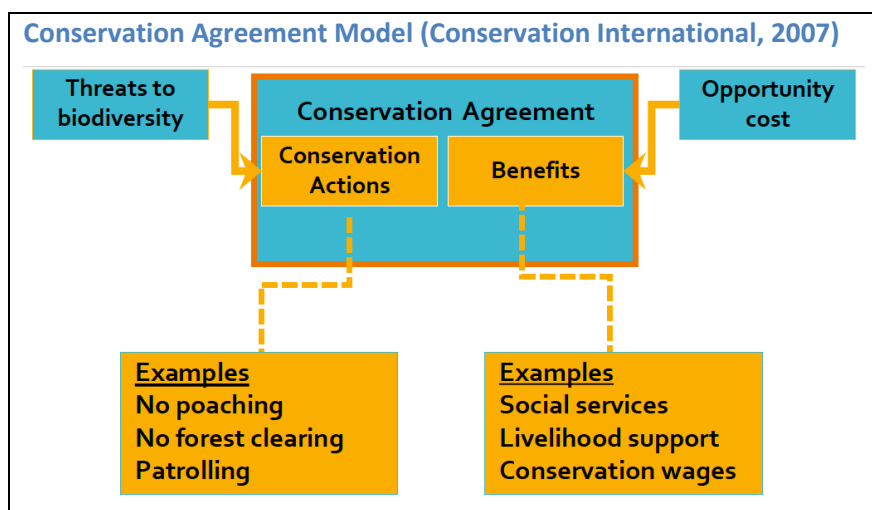
## **4. Production-Protection Agreements**

44. Production-Protection Agreements are a non-negotiable condition of IDH/NICFI investment.
45. The PPA defines the area of forest to be protected. Furthermore, it provides a Protection Plan, a Community Benefit Sharing mechanisms and penalties for non-compliance to the protection plan leading for forest degradation, biodiversity loss or deforestation, to which the community and the concession holder will agree.
46. Each PPA is to be signed by the concession holder, the outgrowers' legal entity, the wider community hosting the outgrower scheme, the Forestry Development Authority (FDA) and the Ministry of Agriculture.

### **Protection plan**

47. The issues of community organization, partnering with companies and linking production to conservation are formidably difficult, but they are not new or specific to the oil palm sector. The presentation by FDA, Arcelor Mittal and CI reminded participants that conservation agreements have been tried and developed in Liberia for over five years. The presenter neatly defined conservation agreements as a negotiated exchange of benefits in return for changes in resource use, contingent on verified performance. Around 25,000 people in some 36 communities are now benefitting from such agreements in Nimba.





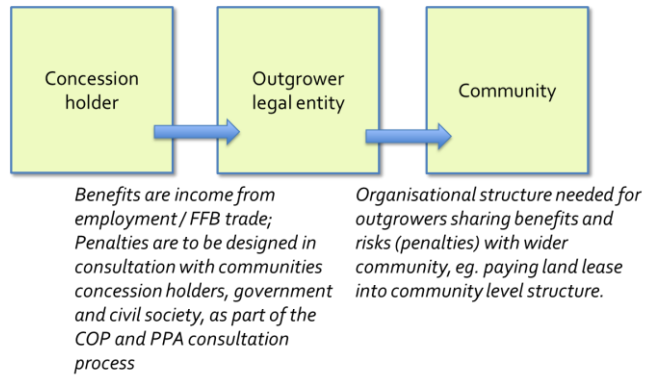
48. The presentation also included a checklist for the feasibility of conservation agreements which reflected well the challenges that participants raised in relation to Production-Protection Agreements. It covered the biological importance of the forest and level of threat, capacity of resource users, resource rights, legal and policy framework, stakeholder engagement, conflict resolution, project costs and financing opportunities.
49. Important financial questions were raised in discussion: Where will the funding for long term implementation of the protection plan come from? While initially the TA funding from the IDH project will go into forest conservation, can a similar level be found or allocated by government for continuation and scaling-up as the outgrower scheme expands? What contributions will concession holders make?
50. Another key question discussed at the workshop was what the options were for communities to avoid over-using the forest? What funding will be available for alternative livelihoods from the project and what types of interventions will be supported?
51. The point was made that this is not an entirely new challenge for the forestry sector: Various projects have tried to conserve forests by promoting alternative livelihoods. Participants from the agricultural sector explained that the objective of alternative livelihoods is shared with national agricultural policy, which is promoting a shift away from shifting agriculture to more settled and productive types of farming. Thus it was said that the IDH project should align with the new national *Agenda for Agricultural Transformation* and coordinate with the numerous projects and heavy donor support for diversification, food security and rural development that already exists. Experience of conservation agreements in Nimba and elsewhere show the types of interventions that work with communities and the costs of delivering these.
52. A third discussion emerged around the question: Will sufficient land remain available for agriculture to ensure food security and nutrition? Participants agreed that availability of land for agriculture to ensure food security and nutrition needs to be taken into account when defining the land availability for Community oil palm and forest to be protected under the PPA.
53. Free, Prior and Informed Consent (FPIC) was recognized to be an important part of the process, both for the Community oil palm land as well as for the forests to be protected under the PPA.

### Benefit and risk sharing

54. As discussed on day one, participants stressed that organizational arrangements need to be developed in and with the communities, where benefits and risks (penalties) related to the outgrower and production protection scheme need to be understood and shared equitably.

55. Participants recognized the need to have a binding Production Protection Agreement, which also includes penalties for non-compliance.

56. These organizational structures for sharing benefits and risks, as well as the design of penalties, are to be developed in consultation with communities and concession holders, while government and civil society, as part of the COP and PPA consultation process, can have a reviewing and advisory role.



### Monitoring and sanctions

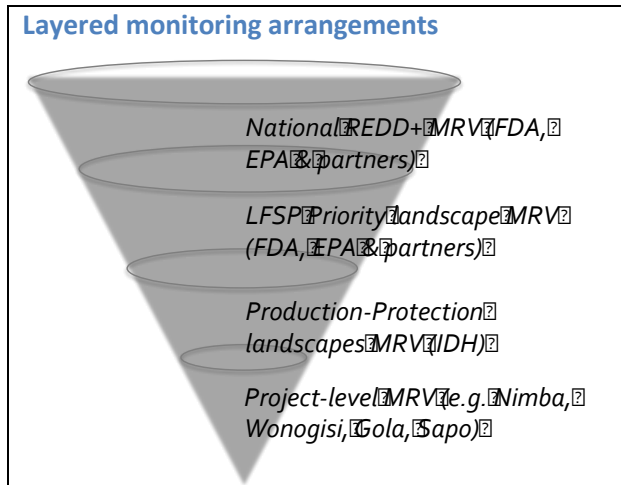
57. From the experience of conservation agreements in Nimba came the lesson that monitoring is vital so that success can be demonstrated. It is difficult and time consuming, but it does present opportunities for employment and benefit sharing as community members can conduct many of the monitoring activities (e.g. patrolling and maintaining biodiversity records).

#### Key monitoring points

<b>Biodiversity:</b>	<i>Is conservation being achieved?</i>
<b>Socio-economic:</b>	<i>Are people better off?</i>
<b>Compliance:</b>	<i>Are commitments being met?</i>

58. Monitoring arrangement for the Production-Protection Agreements should fit within the Monitoring, Verification and Reporting (MRV) arrangements being established for the Norway-Liberia Forestry Sector Project and for national REDD+. This will be especially important if the conserved forest in the PPA is to be eligible for results-based REDD+ payments. A MRV "Road Map" has just been produced, covering priority landscapes which contain the sites for the IDH project. The same institutions will be involved, especially the FDA and EPA, with the REDD+ Implementation Unit at FDA in the lead.

59. The Nimba model of conservation agreements adopts a "three-strike" approach. In the first instance, the community confirms in writing that it will take action to prevent further violation, using their traditional means. If the violation occurs a second time the benefits package is reduced by 10% and by 50% if there is a third violation. A fourth results in cancelation of the agreement.



#### Key points on the Production Protection Agreements

- PPAs are binding agreements in which all parties agree to cooperate in community oil palm production and forest conservation. The Protection Plan is part of the PPA.
- Providing livelihood alternatives to the over-exploitation of forest is very challenging, but there

is experience, funding and programs to draw upon. The pilots need to demonstrate how this can be done.

- Monitoring is vital, so that performance can be measured, results rewarded and non-compliance penalized.

## 5. Organization and coordination of pilots

60. Out of the discussion came the key point that the COP-PPA approach is promising for enabling investment in community oil palm outgrowers, whilst at the same time balancing social, environmental and commercial objectives in the concession landscapes. The pilots are essential for further developing the approach and demonstrating and testing feasibility.
61. Participants agreed to set up a small multi-disciplinary team, composed of government (FDA, MoA), NGO (Social & environmental), Concession holder and technical experts, to stay in each pilot community to co-design with community, approach to:
  - a) Cooperative membership and management;
  - b) Community benefit sharing mechanism;
  - c) Production protection agreement set-up;
  - d) Alternative livelihood / economic diversification opportunities
62. A kick-off meeting for the first team is foreseen in July 2016.
63. This work could be done on project basis using contracted or seconded staff, under the landscape management arrangements outlined by IDH in their project proposal (Landscape managers in each site, an overall program manager and an agriculture specialist).
64. It was stressed that there is a need for implementation partners to coordinate, to have a joint approach and learn from each other. Experts and organizations from the different landscapes should be linked so that they can learn from each other; on effective livelihoods initiatives, conservation measures and community organization, for example.
65. GVL is ready to proceed with three pilots in its concession. Sime Darby is conducting a LIDAR survey to identify High Carbon Stock and High Conservation Value forest, before deciding which land can be developed or conserved. EPO has a potential site in Butaw, neighboring the GVL concession, and is already embarked on a pilot outgrower scheme. This involves around 50 farmers and the rehabilitation of oil palm plantation. MOPP, it was noted, is also developing an outgrower scheme on former oil palm plantation land.

## 6. Road map for 2016

66. A road map for implementation of pilot Production-Protection Agreements and Community Oil Palm was developed by the workshop participants. This details the activities, the timetable, the lead organizations and the necessary partners per step.
67. The full plan attached. The timing is driven partly by the wish to identify production and protection land by November 2016 so that land preparation can take place in the dry season. This creates a challenging but feasible timescale. The key building blocks of the road map are:
  - A. Community Oil Palm and Production Protection Agreements
  - B. PPAs for non-outgrowers
  - C. Green Growth Plan

- D. Protection Plan and Governance of the PPAs (for outgrowers and wider community)
- E. Investment
- F. Monitoring
- G. Communication

68. Important next steps include the first field work coordination meeting in July, for the multi-disciplinary team.

## 7. Concluding remarks

69. Agreed outcome; the participants closed the meeting by formulating and discussing a joint statement on agreed outcome of the workshop, which is shared in the box below.

### **Agreed Outcome of the Community Oil Palm and Production-Protection Agreement Workshop**

Participants from the private sector, Government and non-government organizations express awareness of, and support for, the aims of the Community Oil Palm and Production-Protection Agreements (PPAs) scheme.

- The **Community Oil Palm Production-Protection Agreement (COP-PPA)** scheme provides a financial guarantee for investors in community outgrowers, where there is a strong link to the protection of HCV/HCS forests
- Requirement for the finance is a Production Protection Agreement, signed by communities, palm oil concession holder and FDA.
- Participants support practical actions to establish an initial 2,000-4,000 ha of Community Oil Palm development, aiming to bring at least factor five of HCV/HCS forests in locations worth conserving under forest protection agreements, commencing in 2016.
- Action begins with a pilot project in which concession-holding companies and communities will test community outgrower models and Production-Protection Agreements (PPAs);
- leading to Community Oil Palm schemes and PPAs that are effective and acceptable to all parties and which can be scaled up, so many communities can benefit from outgrower schemes and so that local and national objectives for conserving forest can be met.
- With the Government of Liberia and other organizations contributing staff time, knowledge, and cross-governmental coordination for land use planning;

and the application of relevant programs that can assist the communities with community organizational capacity building, as well as technical assistance in sustainable agriculture, sustainable community economic diversification, community forestry, biodiversity conservation and other needs.

70. The FDA, National Bureau of Concessions, Ministry of Agriculture and NICFI formally closed the meeting, encouraging the participants to work together to establish pilots in 2016, so that the benefits of the program can be seen by all, especially the communities living in and around the concessions

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