

FAIR COMPANY–COMMUNITY PARTNERSHIPS IN PALM OIL DEVELOPMENT

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OXFAM'S CALL

Deforestation and land grabs are not compatible with sustainable growth, but the demand for palm oil is expected to double between now and 2050. Doubling production will only be possible by making more efficient use of existing farm land. To achieve this, the inclusion of oil palm smallholders and communities as partners is key.

Sustainable sourcing and investments can drive benefits for both companies and communities. The current attention to palm oil and deforestation also provides an opportunity to reconsider the way that plantation companies (in palm oil and other commodities) relate to their host communities. In partnerships, arrangements to improve land efficiency can benefit climate, companies and communities, especially at replanting and new plantings. With a decreasing availability of arable land, the best potential for companies to continue to meet market demands and to grow in a climate-friendly way is held by smallholders. Smallholders and communities can raise incomes from producing export crops with higher productivity, while safeguarding subsistence farming on other parts of the land. None of the current partnership models fulfills the potential for smallholders and communities. Therefore, Oxfam believes a re-design of company–community partnerships is necessary to support zero-deforestation goals, encouraged by investors, palm oil buyers and governments.

Oxfam's Briefing Paper (2014) 'Standing on the Sidelines: Why food and beverage companies must do more to tackle climate change', part of the Behind the Brands campaign, calls on brand companies, traders and investors to address deforestation and climate change. Oxfam now asks the largest brand companies to 'know and show' the agricultural emissions in their supply chains of palm oil, soy and sugar, to commit to serious emission reductions and to advocate for changes from other companies and governments.



THE PROBLEM

Palm oil demand has been growing by almost 5% each year and is on trend, therefore, to double before 2050. Unsustainable practices in commodity production and expansion lead to high agricultural emissions, land grabs and exploiting people. In the worst cases, oil palm smallholders who found themselves debt-bonded to the same plantation companies that had taken their community land with false promises, expressed: "We are ghosts on our own land."¹ Local win-win partnerships of companies and communities are still virtually non-existent, despite the potential of current models on paper (see box). Many oil palm plantations, especially millions of smallholder plots, are currently inefficient and underinvested.² Typically, smallholders' yields are said to be between 1 and 3 tons of oil per hectare while large oil palm growers easily reach 6 to 8 tons.

THE WAY FORWARD

Sustainable solutions are possible which are climate-friendly, land-efficient and pro-poor, as shown in new research: FAIR Company-Community Partnerships in Palm Oil Development.³ The Discussion Paper presents the "**principles for FAIR company-community partnerships**" and was commissioned by Oxfam to provoke rethinking of current partnership models in palm oil, in order to address multiple social, environmental and economic dimensions.

Oxfam believes that climate challenges should be addressed by reducing agricultural emissions from land-use change. Increasing the productivity on smallholder farms⁴ is one evident improvement which could yield multiple benefits. For example, doubling demand could be met without new expansion by doubling productivity. At the same time, smallholder income security would also improve. Moreover, community land rights and food security should be recognised.

FAIR partnerships are particularly relevant in situations where the rules of engagement between companies and communities are set for a long period, such as prior to new plantings and replanting. Many of the social, environmental and economic trade-offs are crucially determined by the organisation and management of company-community relationships at this early stage of oil palm development.⁵

The FAIR partnership model proposes to (re-)design palm oil development on the basis of four principles. These are further detailed in Table 1.

- **F**reedom of Choice
- **A**ccountability
- **I**mprovement
- **R**espect for Rights

The FAIR partnership model does not go beyond certification by the Roundtable on Sustainable Palm Oil (RSPO), but rather guides development at an earlier stage, when a company and community first start to build relations. Therefore, the principles for FAIR partnerships should not be considered as a new standard, but rather support the existing sustainability initiatives – such as the RSPO – in their pursuit to make sustainable production models the norm. Opportunities for mainstream adoption of sustainable production models are offered in the palm oil sector, since relatively few actors can have leverage over a large share of global production.

Current company–community partnership models in palm oil

Currently, the five most common palm oil development models applied are

1. Company estates
2. Joint venture arrangements
3. Nucleus estate schemes (NES)
4. Contract farming
5. Independent smallholders

The five archetype development models are characterised by land-tenure arrangements, responsibilities in plantation development and management, revenue models, market access and the delivery of various smallholder-relevant services. Each development model has different risks and opportunities to be climate-friendly, land-efficient and pro-poor. All these risks are especially high when the oil palm development model includes large-scale land transfer and land conversion, as is generally the case for large estates, profit-sharing models and NES projects.⁶ On the other hand, high potential for land efficiency exists in the more centralised models where the company holds responsibility for development and management of the plantations and has access to farm inputs (quality seedlings) and agronomic knowledge. These models, however, take land away from community members and leave them in the role of workers or passive shareholders, not active investors in their own livelihoods. Even where models provide these opportunities, success depends on the intent and quality of implementation.⁷ Better practice models enable oil palm smallholders to increase farm revenues, to invest in the improvement and continuity of their farms and to bring in more money to the household and to the community. Furthermore, inclusiveness, participation, gender and empowerment, result in more equal division of responsibilities, and of risks and benefits between companies and communities.

Table: The principles for FAIR partnerships

<p>Freedom of Choice</p>	<ol style="list-style-type: none"> 1. Companies and communities promote free, prior and informed consent, including women, minorities and workers in the decision making (e.g. on land acquisition, partnership agreements, contracts, financial arrangements). 2. All affected community members, including women and minorities, have a voice in determining how land is used and owned. 3. Companies and communities pursue long-term partnerships based upon symmetrical power relationships and a healthy interdependency (including the promotion of community and smallholder organisations). 	<p>Freedom of Choice concerns the knowledge and capacity of companies and communities to make decisions based on consent. Above all, this requires a mutual understanding of aspirations and concerns. In initial phases of setting up company–community partnerships, important activities are stakeholder identification and analysis, participatory social and environmental assessments, and starting a process of stakeholder dialogue. Community mapping is a powerful tool to support this process. Communities can say no to a company’s proposal and are able to come up with alternatives and reach compromises. Thus, palm oil development models should not apply a one-size-fits-all model but allow for some flexibility to accommodate varying community interests.</p> <p>The company, or alternatively, farmer cooperatives can provide services (inputs or finance) and defend member interests, but in reality smallholders often consider cooperatives to act on behalf of the company.⁸ So, an important condition is that these organizations are considered legitimate by their members and can operate independently from the company.</p>
<p>Accountability</p>	<ol style="list-style-type: none"> 4. Companies and communities ensure internal alignment on the intent of the partnership and respect the commitments they have made. 5. Companies and smallholders enter into fair and transparent agreements and respect defined conditions on pricing, quality norms, delivery, payments and loan reimbursement. 6. Mechanisms to submit grievances and solve disputes are accessible and functioning, also for women and minorities. 	<p>If freedom of choice is considered one side of a medal, accountability should be the other.</p> <p>In order to respect rights – including those of women and minorities – and to realize improvement, the rules of engagement in the partnership should create a balance between Freedom of Choice and Accountability. These two principles include concepts such as voice, transparency and mutual responsibility.</p> <p>Consistent implementation of commitments requires internal alignment within companies and communities. For example, different departments within a company should operate coherently in realizing the objectives of the partnership. Similarly, communities should avoid that certain members or groups act against the partnership. This implies assurance that each smallholder, including women, fully understands proposals for changes in land tenure, purchasing, loans or other service contracts with companies. All parties need to understand the duration of the agreement and the tenure status of the community land, as well as the joint venture governance. Smallholders are informed on the nature of any deductions on payments and how they are calculated. Shared commercial risk and insurance against failure are frequently cited as the cement of successful relationships.</p> <p>Accountability also requires effective mechanisms to submit grievances and to solve disputes.</p>

<p>Improvement</p>	<p>7. Companies and communities pursue shared value creation, enabling smallholders – both men and women – to earn a decent living and to invest in the improvement and continuity of their farms.</p> <p>8. Companies and communities collaborate to close yield gaps by increased resource use efficiency (water, nutrients, chemicals and energy) and low external input technologies.</p> <p>9. Companies and communities improve resilience to shocks linked to prices, pests and climate.</p> <p>10. Companies and communities apply climate-friendly practices and protect biodiversity.</p> <p>11. Companies and communities invest in community infrastructure (e.g. health, education, water and roads).</p>	<p>The Improvement principle should be the driving force in FAIR partnerships to continuously create shared value between a company and communities. Value should be considered in terms of healthy business relationships and climate friendly, land efficient and pro-poor impacts.</p> <p>This requires a joint vision and the roadmap towards it. Existing sustainability standards provide excellent input for ambitions, e.g. on: productivity, training, supply relationships (volumes, prices, quality, transport efficiency of fresh fruit bunches), smallholder farm income, resilience, community infrastructure, food security, protection of High Conservation Value and High Carbon Stock areas etc.</p> <p>For example, a project that is considered a success in Indonesia, included smallholders in organizational management. Cooperatives in this project managed to become strong, independent organizations. The smallholder yields are high, and so is the quality of the fruits, strengthening negotiation power towards the processing mill.⁹ The role of the company is to support and reward community investments in the long-term viability of their community and farms. Support can include the provision of inputs, finance and the transfer of knowledge. Support and rewards should include groups such as women.</p>
<p>Respect for Rights</p>	<p>12. Companies and communities respect land and other resource use rights, including those of women and indigenous peoples and do not negatively affect local food security.</p> <p>13. Companies and communities respect labour rights, human rights and indigenous peoples' rights.</p> <p>14. Companies and communities promote equal opportunities and rewards between men and women.</p>	<p>Of the four principles, Respect for Rights is the basic principle.</p> <p>FAIR partnerships respect legal and customary land tenure rights, labour, human and indigenous peoples' rights. Companies and communities engaging in oil palm development should also consider the impact of land use change on local food security and on those community members who are not integrating oil palm in their livelihood strategies. Awareness of gender relationships should prevent that customary land that is held evenly by women and men is replaced by male-owned smallholdings.</p> <p>The Mama Lus Frut scheme in Papua New Guinea provides women in smallholder households with nets to collect the loose fruits dislodged from oil palm bunches during harvesting. Women are paid separately from their husbands. Anecdotal evidence shows that changes in social dynamics have decreased the rate of domestic disputes, increased financial independence allowing some women to establish small businesses and receive credits. One success factor in the scheme was the collaboration between communities, researchers, NGOs, plantation companies and extension services, each playing a critical role in ensuring that the programme was culturally relevant and successful.</p>

WHO SHOULD SUPPORT?

Developing the right partnerships results in better economic performance, a recent World Bank survey confirmed.¹⁰ Those agribusiness investments – in various commodities – that were well-integrated with the surrounding community were most likely to be financially successful and had the most positive impact on surrounding communities. Investors who acquired land but did not conduct thorough consultations with communities and impact assessments, or left it to host governments to conduct them, often found themselves involved in land disputes.

Still, companies generally seem to consider communities as a nuisance, to be managed at minimum costs. Consequently, communities often consider companies to be hostile intruders in their environment on which they can have no influence. These attitudes result in antagonistic behaviour, which undermines local livelihoods, operational efficiency, land efficiency and climate goals. This situation can be reversed if companies and communities are willing to engage in FAIR partnerships.

FAIR partnerships do not emerge in isolation but also depend on incentives from governments, buyers and investors in the sector, as well as support from civil society organisations, to trigger and sustain them.¹¹ Multiple dimensions should be addressed to prevent undesirable trade-offs:

- **Trading companies and brands** have to ensure their buying practices and CSR strategies are promoting FAIR partnerships in their supply base. Buyers can jointly work with suppliers to prevent climate change, the infringement of community rights and land grabbing. This reduces the need for ad-hoc issue management.¹²
- **Product manufacturers** should not naively replace palm oil with alternative vegetable oils, using health claims as an excuse. Sourcing companies should replace palm oil by certified sustainable palm oil, cognisant of the much larger land-footprint and similar reputation risks of alternative oils (e.g. soy or rapeseed, or canola).
- **Plantation companies** do not only face social and environmental risks, but also financial risks. They should not only avoid expanding into carbon-rich forests and peat lands but also onto community subsistence farming land, which would undermine local food security. Instead, investments should be directed to improve productivity and land-efficiency of existing plots, notably those managed in partnership with smallholders. Rather than excluding smallholders to enhance controls over traceability, efficiency and risk management, plantation companies should embrace them as business partners and contribute to local economic development and the company's "licence to operate".
- **Plantation companies** should promote better yielding genetic varieties, good agricultural practices and incentives for smallholders. Yield improvements should not result from excessive use of agro-chemicals, raising new sources of greenhouse gas emissions. Moreover, other land uses should be promoted in mosaic landscapes as an alternative to monocultures.
- **Banks and investors** have a proactive role in supporting such investments. Their policies and practices can contribute positively by not only including

sustainability issues in due diligence for new plantings, but also incentivising investments in win-win models that revitalise unproductive existing plantings.

- **National and local governments** play a crucial role. The concept of preventing deforestation by making more efficient use of existing land is not undisputed because additional investments are arguably attracted. Therefore, governments should create an enabling environment through national policies, regulation and enforcement¹³ on effective protection of forests and land tenure,¹⁴ as well as investment rules. For example, rather than executing mega-land deals, land allocations could be phased, contingent upon successful development.¹⁵ Benefits should not accrue to local elites, or only offered to those members of communities willing to become oil palm smallholders. Opportunities should be shared with the broad community, by including both women and men in the decision making, which can prevent costly and time-consuming conflicts with and within the community.
- **Civil society organisations** can deliver some critical support to help companies and local communities implement FAIR partnerships, as well as play a watchdog role and initiate constructive dialogues between companies and communities by ensuring that relevant voices are heard in community consultations, impact assessments and grievance mechanisms.¹⁶
- **RSPO and other initiatives** currently promoting sustainable palm oil development models provide requirements on how a company should engage with communities but, as such, advocate a top-down approach. All initiatives can promote FAIR partnerships and develop additional guidance or training on how such investments can be implemented.

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For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org

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NOTES

- 1 Colchester and Jiwan (2006)
- 2 Oil palms provide year-round and predictable yields over a life span of 25 years. Oil yields are 6 to 10 times higher compared to other vegetable oil crops which are replanted annually. Economic performance of oil palm cultivation often outperforms alternative export crops, but high investments are necessary upfront to establish plantations and build processing mills. This makes mills and smallholders highly inter-dependent.
- 3 AidEnvironment (2014). Fair Company–Community Partnerships in Palm Oil Development', Oxfam
- 4 IFC (2013), Sayer et al. (2012), (WBG (2011) and WBG (2010).
- 5 Sheil et al. (2009), Colchester et al. (2013), WBG (2011), Pacheco (2012), Rainforest Foundation (2013) and Sayer et al. (2012).
- 6 The World Bank (2014).
- 7 Stakeholder engagement is instrumental in fine-tuning the needs and aspirations in each specific local context. Note that not every country provides the right context for building trusted relations between companies and communities; in particular post-conflict situations will be extremely challenging.
- 8 Elson (2007).
- 9 Jelsma et al. (2009).
- 10 World Bank (2014).
- 11 Palm oil is a commodity serving multiple purposes, including biofuel, although an estimated 74–80% of global palm oil production is consumed as a food, such as cooking oil in India, Indonesia and China, and a wide range of packaged consumer goods in the 27 EU countries. This paper is mainly written for food and beverage companies and not for biofuel companies.
- 12 Colchester et al. (2013).
- 13 Feintrenie et al. (2010).
- 14 Governments should acknowledge and put in place processes to implement the UN Voluntary Guidelines on the responsible Governance of tenure of land, fisheries and forests in the context of national food security.
- 15 World Bank (2014).
- 16 World Bank (2014).