



Forestry Partnerships in Kenya

**Review of issues for business-farmer and government-community-
business arrangements for wood production**

Discussion Paper and Outline Work Plan

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PREFACE

Between 14th and 29th November 2004 the consultant visited Kenya as part of a World Bank/PROFOR mission to assist government, forest industries and local communities in assessing the merits and shortcomings of alternative partnership-based approaches to management of government-owned forest lands and trees on farm lands. The following issues were explored:

- - a) Business relationships with smallholders for development of forest products – existing and potential partnerships.
 - b) Government relationships with communities for development of forest products, some of which might also have one or more business partners involved – existing and potential partnerships
 - c) Social, legislative, institutional and financial pros and cons of the above partnership approaches and their possible combinations
 - d) In light of the above, possible plantation transfer options (licenses, concessions, leases) for government-community-business partnerships

Reference was made to relevant experiences from other countries. The aim was to develop thinking on some options, which might become the focus of support from various partners, including the International Finance Corporation / World Bank / PROFOR and other donors, to increase Kenya's forest product supply base (particularly timber and fibre) and the contribution made by forestry to sustainable local livelihoods.

This study aims to dovetail with several existing and planned initiatives related to partnerships, some of which are supported by donors. It is anticipated that a further phase of analysis planned for the next six months will use this report to:

- a) Deepen the analysis and stimulate preparedness to initiate action through field work with prospective partners
 - b) Develop the most promising options to the point of outline plans for initiatives, for financing support where appropriate
 - c) Negotiate these options over key institutional and policy hurdles so that a first phase of their implementation can begin by mid 2005.
- This study is intended to contribute to government's objective of creating an enabling environment for attracting increased private sector investment in socially, environmentally and economically sustainable development of Kenya's forest resources.
 - The study complements two other ongoing World Bank / PROFOR initiatives¹, the first of which is a study that addresses the economic aspects of plantation and on-farm forest investments, and the second of which explores possibilities for developing an interim industrial wood supply strategy².
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¹ See: *Kenya Forestry: Economic and Financial Viability. A discussion paper.* Sedjo (2004) and *Kenya Interim Industrial Wood Supply Strategy. A discussion paper.* Spears (2004)

² The following main subject areas, critical to the potential for forestry partnerships in Kenya, are not covered to any great extent in this report since they are better covered elsewhere:

- Kenya's wood and pulp supply needs – see MENR (1994), Forest Department (2004)
- Potential land availability for new forestry activities – see Kamweti (2005 forthcoming)
- Government forestry institutional options and systems – see Price Waterhouse (1997)
- Policy and regulatory analysis – see Bertram (2003) and Ludeki *et al* (2004)

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EXECUTIVE SUMMARY

Why a focus on partnerships makes sense

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- Forestry is changing. Worldwide, food prices have generally fallen over the last 40 years, while timber prices have risen, especially since the early 1990s. Timber prices are stronger now relative to food prices than for 40 years – presenting major opportunities for timber production. Plantations (including farm woodlots) currently provide 20% of the world's wood, and will provide 50-75% by 2050 according to FAO predictions. They will increasingly, be an economically- and socially-acceptable source of wood. Natural forests will remain important for specialist woods, such as fine-grained hardwoods for which there is no real substitute, for production of numerous non-timber forest products such as wild medicines and, most importantly, for protection of forest related environmental services of both local and global importance.

An IIED review of 23 countries, North and South, showed that every country was 'privatising' forest ownership, management and/or services provision. Asset-stripping companies can still thrive in countries with weak governmental and civil society controls. Nevertheless, logging of natural forests is becoming less significant globally. Companies whose business model favours a longer-term view are moving towards plantations – or to highly intensively managed forests with plantation-like characteristics, particularly in the subtropics. With demand rising (3-5 % per year for paper products), production for export and domestic consumption is also rising in many developing countries – for good reasons, such as paper for health care, education and communications. Governments are increasingly looking to harness the potential of private enterprise, in collaboration with communities for management of state-owned plantations.

In line with these global trends, a Forest Bill currently being considered by Kenya's Parliament will, if ratified, shift the emphasis for management of part of the industrial plantation estate to the private sector. A Forest Department "Framework for Forest Sector Reform" document recommends that the government should work with local communities to develop participatory management approaches in 15,000 hectares of existing government plantations. It also recommends that pilot-scale schemes be introduced for commercialization of a further 25,000 hectares.

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- Until recently, the social responsibility of forest companies in many countries ended with their formal obligation to pay royalties and taxes and perhaps to compensate local populations for negative social impacts like loss of access to forests or damage to crops. Commonly, this meant cash compensation for lost assets, a few jobs and perhaps the construction of a school or a health clinic. However in recent years many of the larger forest industrial companies have been 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 current situation in Kenya: issues for further analysis

This study of the situation in Kenya puts particular emphasis on three main types of partnership arrangement: Firstly, to possibilities for engaging local communities in participatory management of plantations within government-owned forest reserves. Secondly, to the increasing importance of outgrower partnerships that could benefit

many thousands of smallholders and several larger scale agribusiness companies who are planning to establish new plantations. Thirdly, to possible long term concession-based partnership arrangements between government, companies and local communities, that could help to ensure rehabilitation and expansion of the government's plantation estate.

Participatory management is a relatively new concept in Kenya, but one which is of high priority for linking sustainable management of plantation resources with broader objectives of creating sustainable livelihoods and protecting indigenous forests. Participatory forest management in government forest reserves, which is currently in an experimental phase, will be given a major lease of life if the long-awaited Forests Bill is passed.

Outgrower arrangements for production of pulpwood are just being introduced by PanAfrican Paper Mills (PPM). Some of the leading agribusiness companies (particularly in the tea and tobacco industries) have been testing outgrower approaches for production of fuelwood as a substitute for oil-fired boilers or for tobacco curing.

Farm forestry thrives in Kenya, but the need to improve forest-linked livelihoods gets daily more urgent. Forestry enterprises based on farm-produced lumber are highly wasteful of the resource but play a key role in rural economies. A major constraint to farm forest development is the prevailing permit system for felling and transporting timber which is arbitrarily used, poorly understood and often acts as a disincentive to smallholder forestry. There has been very little experience of outgrower schemes for production of longer rotation timber crops. However several larger estate and private sector investors have expressed interest in possibilities for growing timber crops on private lands.

□ Plantation areas in the government reserves have been plundered for land and trees and many are in a poor state³. Licences to plantations in forest reserves have had major problems in the past and, with the exception of PPM and RAIPLY⁴, are currently banned. Only a handful of sawmills currently operate legally, others operate illegally or are mothballed. The economics of timber are thus highly distorted – constraining both vital smallholder livelihood strategies and potentially major enterprise vehicles for rural economic growth. The emergence of an improved concession-based system under a parastatal Kenyan Forestry Service has much to recommend it, but still faces obstacles.

□ Farmer involvement in plantation establishment under the “shamba” system or, more recently “non-resident cultivation”, has gained a bad reputation but, with improvements and adequate safeguard policies, it can work.

Smallholders, communities, businesses and the government have begun to visualise a range of partnerships that can produce wood or fibre on a sustainable basis whilst bringing improvement to local livelihoods in Kenya. The types of these proposed partnerships, and their pros and cons, are outlined in Table 1 below:

³ Of the 160,000 hectares of plantations established between the mid 1950's and the early 1990's and in which the World Bank had invested about \$ 80 million at least 40,000 hectares have been illegally excised and converted to agriculture.

⁴ The two largest forest industries in Kenya and in which government is a share holder

TABLE 1
Pros and cons of different partnership arrangements

Type of partnership	Pros	Cons
Participatory forest management enterprises – in government reserves	<ul style="list-style-type: none"> <input type="checkbox"/> Access to land and livelihood opportunities otherwise denied to communities <input type="checkbox"/> Community provides services previously borne by government 	<ul style="list-style-type: none"> <input type="checkbox"/> Restricts access to others <input type="checkbox"/> Risk that communities not interested in forest management - just want the land back
Outgrowers for pulp and fuelwood – on private land	<ul style="list-style-type: none"> <input type="checkbox"/> Politically easy <input type="checkbox"/> Short rotations attractive to farmers – Eucalyptus and bamboo <input type="checkbox"/> Good growing conditions <input type="checkbox"/> Pulp mill, tea, coffee, horticulture and tobacco companies already initiated <input type="checkbox"/> Fuel substitution link to Clean Development Mechanism 	<ul style="list-style-type: none"> <input type="checkbox"/> Poor public image of pulp company <input type="checkbox"/> Only one buyer of pulp <input type="checkbox"/> Transaction costs for company <input type="checkbox"/> Weak organisation of farmers <input type="checkbox"/> Ecological concerns about Eucalyptus <input type="checkbox"/> Exclusion of those without land <input type="checkbox"/> Returns to local livelihoods may be insufficient dependent on transport distance to processing plants and/or to markets
Outgrowers and joint ventures for timber – on private land	<ul style="list-style-type: none"> <input type="checkbox"/> Trees tend to increase tenure security <input type="checkbox"/> Potential for higher net returns to farmers than alternatives <input type="checkbox"/> Many farmers used to growing trees already suitable for timber <input type="checkbox"/> Good neighbourly relations for companies 	<ul style="list-style-type: none"> <input type="checkbox"/> Difficult for farmer to get real market price <input type="checkbox"/> Little experience yet <input type="checkbox"/> Huge time lag for farmers <input type="checkbox"/> Loss of land for crops <input type="checkbox"/> Incentives to remove indigenous tree and plant exotics on farms
Concession partnerships – in government reserves	<ul style="list-style-type: none"> <input type="checkbox"/> Employment in forestry and milling <input type="checkbox"/> Rehabilitates the plantations <input type="checkbox"/> Higher social returns from plantation use <input type="checkbox"/> Increased revenues to government <input type="checkbox"/> Can help disadvantaged groups 	<ul style="list-style-type: none"> <input type="checkbox"/> Politically difficult unless local communities and small holders can be engaged <input type="checkbox"/> Continued predominance of exotics in plantations <input type="checkbox"/> Decline in processing capacity (losers as well as winners) <input type="checkbox"/> Worries about non-resident cultivation failing again

Emerging examples of each of these types of partnership in Kenya are discussed in Chapter 2 of this study. They include:

- Ukambani Integrated Natural Resources Management programme**
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- This is a participatory forest management enterprise for wood production in government reserves located in the Ukambani region. A mobile sawmill run by the community on a commercial basis has recently begun operating in areas of plantation – it is planned that it will utilise 3000m³/year (buying at normal prices from government) with 50 employees in the mill and woodworking shop initiative. Training and registration of a private association under the Company Act (486) is anticipated – as is transfer of the mill from the project to community ownership over the life of the project.
-

Green Belt Movement supporting participatory management in plantation areas in the Aberdares near Nyeri

Nobel laureate Hon. Wangari Maathai's Green Belt Movement (GBM) has energized considerable numbers of community groups in the area since 1977. Over the last year or two there has been interaction in the forest reserves. Community nurseries produce seedlings of "indigenous" trees with GBM providing the poly-bags and paying for surviving seedlings. The Forestry Department collects these and brings them up to their nursery inside the reserve. On particular days, the community groups are mobilised by key GBM personnel and help the FD to plant these seedlings in designated patches in the reserve. Some have suggested that this initiative could develop a component in future aimed at the production and sale of industrial roundwood.

Outgrowers of pulpwood and fuelwood – PanAfrican Paper Mills (PPM)

- Historically PPM has depended almost exclusively on softwood fibre harvested from government plantations over which the company held a long-term (31 year) license.
- Given the extensive loss of plantations during the 1990's, remaining softwood plantation supplies are inadequate to sustain the combined needs of PPM and of other key forest industries. Accordingly, in areas within an economically viable distance of Webuye, the site of its pulp mill, PPM is developing an outgrower scheme to produce short fibre for the mill at reasonable cost to the company, whilst providing attractive returns to farmers. The company is also implementing an energy substitution programme – switching from imported fuel oil to biomass resources to feed some of its boilers. That would create a substantial market for short rotation fuelwood crops.

Outgrowers of fuelwood – small tea growers and factories

- The tea industry brings over US\$400 million into Kenya each year. The country is the largest exporter of black tea in Africa and the third largest in the world. Small-scale farmers grow more than 80 per cent of it (a total of about 250 million kilos per year), while the rest is by large-scale producers. Small-scale farmers market their produce through the umbrella Kenya Tea Development Authority (KTDA), which is in charge of collection, processing and selling of processed leaves. There are many small tea factories with links to farmer tree production. Whereas the larger tea companies tend to have their own land for plantations the smaller factories around Mt Kenya, the Aberdares and Kericho are more likely to deal with small growers for both tea and fuelwood.

Timber and pole outgrowers and community schemes – large tea and coffee companies

Large-scale producers of Kenyan tea include Brooke Bond, George Williamson, Eastern Produce and James Finlays. Unlike small-scale farmers, large-scale growers are responsible for processing and marketing of their own crop. A number of large tea companies have their own fuelwood plantations and, along with some large coffee companies such as Kakuzi, are increasingly interested in pole and timber growing in their product diversification strategies. Williamson's, which works with smaller tea outgrowers than some of the other large companies, is exploring timber and bamboo production with groups of smallholders. Kakuzi has moved into pole and timber production quite aggressively on its own land since coffee prices have dropped.

Concession partnerships – sawmilling companies working with communities under concession in government plantations

There is currently a ban on any further licensing in government plantations. However, it has been proposed that well-organised and managed partnership arrangements between government and businesses, with communities either as third partners or at least heavily engaged, are desirable and workable. This view is supported by the consultant, and the term 'concession partnerships' is used here for this type of arrangement. It is hoped that the Forest Bill when enacted will permit such well-developed concession partnerships.

It is proposed that pilot arrangements be developed with sawmills willing to consider revitalising their mills in combination with replanting and managing plantation areas in partnerships with other enterprises and communities. It is unlikely to be politically feasible or socially desirable for one milling company to operate exclusively and alone in a large area of plantation. A consortium approach would be necessary with one or more larger businesses, with forestry and milling capability, teaming up with smaller forest enterprises and communities to bid for and manage particular packages of government plantations. A competitive allocation system would be required with price being one of several economic, social and environmental criteria for assessing the merits of bids.

In addition to PPM and RAIPLY specific examples of some of the sawmilling and wood based panel industrial enterprises that have so far expressed strong interest in collaborating with government in development of such partnership-based concession arrangements include:

- - Gachagua Saw Mill in Elburgon
 - Kinale Sawmills
 - Kamburi Sawmill in Meru
 - Mt Kenya Sawmills in Nanyuki
 - Sembi Sawmills in Kakamega
 - TimSales in Elburgon
 - Comply in Kericho
-
- The above is a very preliminary listing of potentially interested companies. Further analysis and discussion will seek to identify other possibly interested sawmilling or wood based enterprises.

Principles for successful forest partnerships

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- Experience from many other countries such as Zimbabwe, Ghana, Phillipines and South Africa (see Chapter 3 of this report) suggests that adherence to some basic principles will enhance the possibilities for favourable partnership outcomes in Kenya (Box1).

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BOX 1
Principles for responsible forestry partnerships

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 partnerships 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** - both trees and trust take a long time to develop, optimal benefits may take a long time too – treat partnerships as strategic commercial ventures, as well as socio-cultural and environmental ventures
6. **Equitably shared risks** – accurate calculation and sharing of risks in production, market, social and environmental terms, often best done by planning for a mix of low, medium and high risk investment
7. **Good business tactics** – practical business development actions at the core, not exploitative relationships, not public relations exercises
8. **Sound livelihoods strategy** – relationships between partners focused on increasing capital assets of the poor, supporting diverse local implementations paths, securing local rights and responsibilities and developing the capacities of local institutions
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

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□ **Profitability of Kenya forestry: potential financial returns from forest plantations**

Preliminary calculations of financial returns to forest plantation investments contained in a recent World Bank / PROFOR study suggested that favorable market rates of return can be obtained in Kenya if proper management practices are followed. Financial returns were estimated for a number of representative alternative types of species and forest management regimes. Real (inflation free) internal rates of return (IRR) for well managed plantation regimes and suggested royalty rates were calculated as in Table 2.

TABLE 2
Kenya: internal rates of return for selected species and plantation regimes

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Species/regime	MAI m3/ha/yr	Rotation period years	Stumpage price KS/m3	IRR
Pine/pulpwood	15	19	700	9.9%
Pine/sawtimber	15	25	1400	10.2%
Eucalyptus/pulp /fuelwood	50	6	700	27%

Note: \$1 = KS80

The main conclusion of the financial returns study was that the above returns would generally be viewed in the forest products industry as more than adequate to financially justify undertaking the types of plantation investments examined. Furthermore, they could be improved with integrated management whereby harvested wood would be allocated to its highest value use.

□ **Sources of finance**

New sources of financing for forestry in Kenya are on the horizon with a possible national forestry fund and payments for forest environmental services. A national forestry fund has been mooted for smallholder tree growing schemes – such that they become company-farmer arrangements when they are established. Uganda experiences of developing a Sawlog Production Grant Scheme would seem particularly relevant to possible future private sector investment in longer rotation timber crops. The Agricultural Finance Corporation in Kenya is considering opening up a line of finance for forestry. Micro-finance institutions may hold opportunities – such as the Kenya Rural Enterprise Programme Discussion with IFC's Corporate Citizenship Facility, suggests possibilities for mobilising funding to engage local communities as outgrowers of pulpwood both on private farms and also within a pulpwood working circle that would cover perhaps 20 per cent of the government's forest plantation estate. IFC's emerging Public Enterprise Partnership Scheme in Kenya would be a possible vehicle for mobilising funding for financing technical evaluation, rehabilitation and expansion of small and medium scale sawmilling, joinery, prefabricated housing and other forest industrial enterprises.

The Clean Development Mechanism could be a potential source of finance e.g. for tea producers converting from diesel to fuel wood grown in plantations. ICRAF have been asked to come up with methodology for accessing a Small Scale Bio Carbon Fund. In the Nyambene reserve in Meru-North district – a system is being developed for charges to be levied for water provision to downstream users In the Ukambani region (Machakos, Makueni, Mwingi and Kitui Districts). Proposals are being developed for collaborative forest management agreements under which a percentage of revenue from horticulture and other activities would be paid to Hill Conservation Committees for conservation activities in the forest reserves.

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□ It is recommended that as part of the follow up programme of work being suggested in Chapter 4 of this study there be included a discrete analysis of the pros and cons of various financial incentive schemes for attracting private sector investment and of optimal financial arrangements for supporting partnerships .

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□ **Interim industrial wood supply strategy**

A Forest Investment Workshop hosted by the World Bank and PROFOR in November of 2004 highlighted the urgent need for updated forest inventories as a basis for policy decisions on concession policies and plantation targets. It will likely take 18 months to 2 years to complete these proposed inventory and other studies. It may well take 3-5 years before pilot schemes for testing partnership arrangements, such as those being discussed in this report, can demonstrate optimal arrangements for engaging local communities, small holders and private sector industry.

Given this likely hiatus and the need for early on-the-ground action to implement the recommendations of the Forest Bill, a parallel World Bank / PROFOR study explores whether, on the basis of already available information on Kenya plantation growth rates, yields, financial returns and anticipated Industrial roundwood markets it would be possible to develop an Interim (say 3 to 5 year) Industrial Round Wood (IRW) Supply Strategy the objectives of which would be:

- ❑ To assure potential investors that there are reasonable prospects for long term growth and expansion of Kenya's forest sector and for meeting the foreseeable requirements of the saw milling, wood based panel and pulp and paper industries through year 2015.
- ❑ Pending clarification of present uncertainties about the size and likely volumes of wood available from remaining plantation resources, to provide government with a basis for decisions on the possible scope and geographic location of pilot schemes and future concession arrangements.

The main conclusion of that study is that a combination of fast growth rates, potentially attractive financial rates of return to investment (particularly in short rotation industrial plantations), the already well demonstrated potential of farm forestry, the growing interest that is being shown by potential private sector investors in new plantation investment, and the anticipated domestic market growth for forest products, suggest that it should be possible for Kenya to achieve self sufficiency in industrial wood requirements.

Between now and 2015, industrial wood requirements are likely to rise from their present level of about 2 million m³ to something in the order of 2.5 million m³ of which about 70 per cent will be needed for manufacture of lumber, furniture, joinery and wood based panel products and 30 per cent for manufacture of paper and paperboard. The World Bank / PROFOR study concluded that these are achievable targets.

❑ Very preliminary calculations suggest that of an assumed fully-stocked plantation area of about 100,000 hectares, about 80 per cent would be primarily utilised for production of lumber and wood based panel products. Such plantations would need to be regularly pruned and thinned and managed on 25 – 30 year rotations. About 20 per cent of the plantations would be managed as for softwood pulpwood on short (15-18 year) rotations. Subject to further study, integrated harvesting operations in some of the West of Rift plantation areas could also contribute part of PPM's wood supply. Subject to the outcome of further engineering and feasibility studies it is assumed that beyond 2010 about 40 per cent of PPM's future combined pulpwood and biomass supply would be derived from fast growing Eucalyptus and bamboo plantations grown on farmlands.

Next steps

The suggestion now is to proceed with a process of further investigation and design of selected partnership initiatives. Several steps will be needed, with the following suggested objectives:

1. To expand the list of promising existing or potential partnership initiatives and to get basic information together on these
2. To generate criteria for fine-tuning and reducing the list to a manageable size
3. To further investigate the initiatives on the list
4. To identify which initiatives would benefit from targeted external support

5. To design appropriate technical and financial interventions in support of a selected number of initiatives

□ For investigating the partnership initiatives that might be taken forward, Chapter 4 of this study sets out a suggested Work Plan. Whilst these steps are under way, a process of securing technical and financial support for the initiatives that make it through to step 5 would also need to be initiated.

Terms of reference for a working group to take these steps forward are outlined in Chapter 4. Checklists of key questions which need to be answered for each of the recommended initiatives are summarised in Annexes 2 and 3. Annex 2 provides a checklist for issues to work through in investigating business-community or business-smallholder partnerships. Annex 3 provides a similar check list of issues to work through in investigating concession partnerships.

□ The cost of implementing the above Work Plan is likely to be in the order of \$ 1 million. Whilst that is a daunting sum it seems probable that many of the activities being proposed would fall within the scope of ongoing aid programmes or investments being supported by for example, Finland, JICA and DFID (who are PROFOR donors) and possibly also Belgium, USAID, the Netherlands, the European Union, UNDP and by the IFC (see “sources of finance” above).

The World Bank and PROFOR are providing support for forest related Economic Sector Work (ESW) such as this study. The Bank has nominated a Senior Natural Resource Management specialist based in its Nairobi office to assist in Task Managing some of the activities being recommended in this report.

Several of the above proposals should fit well with ongoing activities being supported by Kenya’s NGO community, and by the Kenya Forest Working Group and Forest Action Network). They also resonate with the objectives of some industrial groups such as the Timber Industries Employers Association, private sector investment groups such as “Miti Mingi” and members of the East Africa Business Summit Environment Committee who met with the Minister for Environment and Natural Resources in November of 2003 and pledged strong commitment by the private sector to establishment of new forest resources.

Much of what is being suggested in this study could benefit from further analysis of lessons being learned from similar partnership initiatives developing in other countries of the East and Southern Africa Regions. It has been suggested that at a later stage, PROFOR might wish to consider providing seed funding to a regional Forest Investment Forum that would provide an opportunity for countries in the region to share such experiences. This could usefully build on earlier Bank / IFC experience of hosting a multi stakeholder Forest Investment Forum in Washington D.C. in October of 2003.

CHAPTER 1. BACKGROUND – TO FORESTRY PARTNERSHIPS

This chapter discusses some key issues of international context which are likely to affect the emergence of forestry partnerships in Kenya, some relevant types of forestry partnership, and some of the pros and cons of partnership approaches.

1.1 Why it is crucial to focus on improving forestry's contribution to rural livelihoods

Improving rural livelihoods in Kenya is an urgent and widely recognized imperative. However, less well recognized – at least in terms of core government programmes such as Kenya's Economic Recovery Strategy – is the central role of natural resources, including forest resources, in both current livelihoods problems and potential solutions. Kenya is in good company internationally in needing to focus more direct attention on the ways in which well-managed forest resources can do more for local livelihoods.

Good forestry offers some high-potential routes out of rural poverty. Whilst forest resources usually only provide contributions, rather than whole livelihoods, such contributions can be substantial in terms of food security, resource safety nets and sometimes enterprise opportunities where little else exists. Furthermore, if key actions are taken, many more poor forest producers, traders and workers can participate in local initiatives that offer commercial prospects.

□ Our focus here is on planted and tended trees, rather than natural forest management. The contribution of planted trees to local and national economies is usually far higher than GDP estimates for the forestry sector would suggest. Livelihoods of rural people are enhanced by farm forestry, by employment in large-scale plantings and fibre/wood processing, and by participation in out-grower schemes. Direct access to forest plantation products (e.g. building materials and fuel wood) and other resources (e.g. grazing) by rural households is often important. In some cases plantations provide the basis for a wide range of small scale processing and retailing enterprises. In some others there is emerging potential for selling plantation-based services such as tourism, carbon or even watershed protection services.

1.2 Why increasing forestry's contribution to livelihoods is difficult

In some contexts, plantations may do little for the rural poor through local economies and may take up land more rightly suited to poor people's food production. The contribution of plantations to alleviating rural poverty depends crucially on tenure and access rights, mobility of workforce and the labour demand of the plantation. The amount and type of employment provided by plantations - whether private or state - depends on the type of plantation being established and the level of associated downstream processing.

Poor people's use of forest resources is often over-regulated while more powerful interests can defy control, which undermines the rule and legitimacy of law. Regulation often vastly exceeds government capacity available for enforcement – US\$5 billion per year is lost worldwide by governments unable to collect taxes from forest concessions, and a further \$10 billion is lost from illegal cutting of forests (World Bank, 2001). Regulatory frameworks need to focus more on effectively curbing the excesses of the powerful rather than on limiting use by the poor – especially in those markets where

small producers would have a comparative advantage. When poor people have enough say in defining regulations, they will usually adapt these regulations effectively and support their enforcement.

Secure individual or communal tenure allows attractive returns to poor people from forestry when the government and private sector work on providing the right conditions rather than on promotional campaigns. In India, for example, farm forestry was kick-started, but not sustained, by the government's programme of vigorous promotion of farm forestry and the private sector's outgrower schemes in the 1970s and 1980s. Today there is more commercial realism. Development of more competitive and accessible markets – and the concomitant removal of regulatory barriers, such as the permits needed for planting, cutting and transport of wood – has made farm forestry in India a profitable option even to poorer landowners who are able to plant trees only along field boundaries and contours (Saigal et al, 2002).

Access to information on the value of forest resources in the market place is crucial. It is rare for farm foresters to get anything like the market price for their forest produce. Trust and confidence of farmers in tree growing is often, consequently, low. Small-scale producers need support to analyse their markets and establish a competitive position, and to learn the financial and organisational viability of different business models and how to manage market risks.

1.3 Why companies, communities and governments may seek forestry partnerships

- Some of the factors which encourage companies, communities, farmers and government agencies to investigate partnerships with each other are highlighted in Table 3.

TABLE 3
Motivation for creation of partnerships

<i>Companies may aim for partnerships with communities and farmers, and sometimes with government too, when there are:</i>	<i>Communities and farmers may aim for partnerships with companies and/or government when there are:</i>	<i>Governments may aim for partnerships with companies, communities and farmers when there are:</i>
<ul style="list-style-type: none"> □ <i>Public pressures to behave well</i> – intolerance of irresponsible corporate behaviour and demands to demonstrate social responsibility are growing in many countries, and in some markets calling for certification and fair trade □ <i>Imposed requirements</i> – such as government contractual requirements or investment conditions to service low-income communities □ <i>Land and resource access and security advantages</i> – access restrictions or ceilings on the 	<ul style="list-style-type: none"> □ <i>Secure ^{land} tenure and ^{tree} rights</i> – or, conversely, a lack of legal or bureaucratic permissions to develop land and trees without company help □ <i>Potential for ^{higher net returns} from land and labour than ^{alternatives}</i> would provide – in terms of regular income and /or reduced market risk through assured sales or capital accumulation □ <i>Decreasing opportunities from the public sector</i> – declining subsidies, privatisation of plantations, fewer centrally planned interventions □ <i>Desirable technologies or</i> 	<ul style="list-style-type: none"> □ <i>Macro-policies favouring a regulated market economy</i> – initiatives to reduce public debt, gain control over budget deficits, increase economic efficiency and improve aggregate welfare through the private sector, and reduce state power and widen ownership □ <i>Contradictions to be removed between government as regulator and manager</i> – many governments see advantages in separating regulatory and business functions in all sectors, leading them in some

<p>wood sources and land that companies can themselves control may be avoided, and resource security and diversity of sources of supply increased, through partnerships with local land and resource owners</p> <ul style="list-style-type: none"> □ <i>Cost advantages that the community can provide</i> – through motivated labour, land and resource management, knowledge of local conditions, and efficient institutions □ <i>Local risks that the community can help minimise or take on themselves</i> – such as tenurial and land-use conflict, the abuse of company property, violence against company employees, locally supported interference from local politicians, and price fluctuations that can be passed on to communities 	<p><i>services that only companies can provide</i> – e.g. capital intensive forestry technology, infrastructure, social services or political clout</p> <ul style="list-style-type: none"> □ <i>Institutions capable of representing the interests of the community to the company</i> – well developed grass-roots organisations, community orientated non-governmental organisations, accountable local governments □ <i>Markets to which the community has limited access</i> – international timber markets □ <i>Scientific knowledge that the company can provide</i> – e.g. characteristics of alternative tree species 	<p>cases to remove the business function to the private sector, in others to separate state agencies.</p> <ul style="list-style-type: none"> □ <i>Drives to address inequality and empower disadvantaged groups</i> - designed in the right way, use-agreements and transfers of government forest assets to farmers and communities can benefit disadvantaged groups □ <i>Drives to increase profitability of the forest sector</i> – initiatives with private entrepreneurs can increase innovation and longer-term growth, engaging with communities can help combat forest degradation and improve forest condition by encouraging more responsible stewardship
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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. This report uses a fairly pragmatic definition:

Partnerships are relationships and agreements that are actively entered into, on the expectation of benefit, by two or more parties. For our purposes, the term partnerships may be used for a wide range of contracts and informal arrangements between companies, communities, smallholders and government agencies.

Partnerships are a means to share risk between the parties, and third parties often play important supportive roles. Where partnerships are strong, they tend to exhibit the following features (Mayers and Vermeulen, 2002):

-
- *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 work plan* – 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

1.4 Types of partnerships between businesses and communities or smallholders for tree-growing

In a wide range of countries around the world there are partnerships of various sorts between businesses and communities or small holders for tree-growing. They can be divided by function into three main types: smallholders growing trees with company support; companies growing or managing trees with smallholder participation; and joint ventures. These are further outlined below:

- *Smallholders grow trees with company support*
 - *Outgrower schemes* – smallholders grow trees on their own land or on community land, with support from companies, often in the form of physical inputs (e.g. seedlings, fertiliser), extension and credit, under agreement to sell the trees to the company when they mature
 - *Farm forestry support* – smallholders establish plantings with technical support from companies, and sell the output without purchase contracts
 - *Group certification with company support* – forest communities or smallholder producer organizations with contracts or agreements with certified wood buyers or intermediaries to market products
 - *Forest environmental service agreements* – payments and other benefits to smallholder organizations or communities from local government, companies or conservation agencies, to provide forest environmental services such as biodiversity conservation, watershed protection, carbon storage and landscape amenity.

- *Companies grow or manage trees with smallholder participation*
 - *Land leases* - land owners lease to private companies for wood or pulpwood production
 - *Crop-shares* – plantings established on farmer's land with support from company, and crop profits shared
 - *Concessions* - forest or land areas leased by communities to companies, with communities retaining substantial control
 - *Social responsibility projects* – company contributions to local development in return for good general social relations, or 'a social license to operate'

- *Joint ventures* – forest communities manage timber, pulpwood, commodity wood or non-timber forest products in partnership with companies, often with communities putting in land and labour, companies putting in capital, and both holding equity in the production venture

1.5 Types of partnerships between governments, businesses and communities in state-owned plantations

Arrangements in other countries, between the government and other players, for the management of plantations fall into three main types - outsourcing of services, transfer of use rights and transfer of ownership (Garforth and Mayers, 2005):

- *Outsourcing services* - is the least dramatic; ownership and overall management control are retained by the state while particular use and management functions are

devolved to private contractors. Outsourcing of plantation operations tends to be favoured where public benefits are felt to be too important to risk handing outright to private operators (e.g. where a plantation is providing an essential biological corridor between remnant patches of natural forest) but where the state's performance in managing the resource has been sub-standard. This approach has been used in places in Kenya in the past but the state's ability to manage this in future is questionable.

- *Transfer of ownership* – is the most dramatic; a complete transfer of ownership rights over some or all of the assets that comprise the plantation. The ownership rights of the state often limit the scope of any transfer - the state may own the trees but not the land, or the land and trees but not the rights to take game. In practice, the transfer of exclusive rights to all of the assets vested in state agencies is rare. This approach is considered by many to be both unlikely and undesirable in Kenya.
- *Transfer of use rights* – is the middle option; it involves a greater devolution of power from the state plantation manager to non-state entities than contracting out. With outsourcing of harvesting or management activities the private contractor continues to work for the state plantation manager. Where use rights are transferred private harvesters work for themselves. Governments may favour this model of transfer where they lack the managerial capacity to operate a sophisticated outsourcing system. While they must still monitor compliance with license conditions, the burden is likely to be lower than that for outsourcing. The extra degree of freedom for the beneficiary is at least partly curtailed by the imposition of harvesting conditions. This approach is the one thought most suitable in Kenya and is pursued further in this study.

1.6 Why partnerships may sometimes be seen as a bad idea

There are many potential restraining factors against partnerships. These may include: poor infrastructure and high transport costs relative to gains, excessive red tape, weak regulatory regimes – allowing irresponsible business to ignore communities. There may be a lack of socially astute staff able to manage the process. 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.

Amongst communities, 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.

In the case of governments transferring rights to plantations to others, this can be the right thing to do when it puts power in the hands of those who can use plantations for equitable, efficient and sustainable ends. But transfers can also go astray and be used to concentrate plantation power and privilege in too few hands (Garforth and Mayers, 2005).

It should be noted that all the above factors, pushing and pulling companies, communities and governments 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. Absolute clarity of purpose, dedication of practitioners, specific steps, a phased learning approach and adequate time are all needed to make partnerships work.

TABLE 4
Summary of key concerns expressed about forestry partnerships

Community-business partnerships on private land	Government-business-community partnerships in state-owned plantations
<p>Economic concerns</p> <ul style="list-style-type: none"> ❑ <i>High transaction costs on both sides</i> - meaning for example that for companies outgrown timber or pulp is often more expensive than from other sources – having to deal with many diverse and dispersed smallholders - and for communities that better terms are difficult to negotiate ❑ <i>Insufficient returns for local livelihoods</i> – experience suggests that for most communities, partnership activities are supplementary rather than central to livelihoods. There are possibilities that communities or smallholders may get locked into dependency, or ripped off by companies 	<p>Economic concerns</p> <ul style="list-style-type: none"> ❑ <i>Loss of timber and non-timber forest products</i> – may lead to resource ‘mining’ and the loss of valuable forest assets as companies seek to recover the costs of their investment in as short a time-period as possible. ❑ <i>Decline in processing capacity</i> - where the state has in the past been the main supplier of raw materials it has often effectively provided a subsidy to the industry. Where the government then grants licenses to plantations to particular licensees the repercussions for downstream processing can be enormous and may be fiercely resisted by industry players who are not the beneficiaries of licenses
<p>Social concerns</p> <ul style="list-style-type: none"> ❑ <i>Perpetuation of low-wage labour, poor conditions of employment and inequitable land distribution</i> - deals which entrench existing patterns of ownership and control may do little to improve local conditions and may exacerbate local tensions ❑ <i>Exclusion of disadvantaged community members</i> - some schemes require possession of land and some initial capital resources from community members and this may rule out the landless and poorest ❑ <i>Low level of bargaining power</i> – community groups and smallholders are usually the under-powered partners, and partnerships may not increase their bargaining power ❑ <i>Misunderstandings between partners</i> – with tasks shared or distributed, misunderstandings are always possible, and may lead to financial losses or litigation 	<p>Social concerns</p> <ul style="list-style-type: none"> ❑ <i>Restricted access</i> - transfers of certain use rights may impact on traditional use rights and livelihoods, or spiritual pursuits. In some European countries public access restrictions protect landowners’ rights to manage and use their land for their own goals, clearly limiting public opportunities to enjoy forest land. In South Africa serious questions have been raised about how the restructuring of government plantations can be carried out whilst preserving the land rights of dispossessed former owners ❑ <i>Job-shedding</i> - transfers of use rights may be associated with reduction in spare capacity, labour redundancies and impacts on other forest product livelihoods such as small millers. The social costs of this process may be significant in forest-dependent communities

Environmental concerns	Environmental concerns
<ul style="list-style-type: none"> ❑ <i>Reduced streamflow downstream</i> – particularly in semi arid zones resulting from eucalyptus plantations, affecting water supplies for agriculture and household use ❑ <i>Increased risks</i> - such as greater chances of fire under widely spaced or monocultural plantations ❑ <i>Loss of land for crops</i> – there is often a fear that smallholders with little land will be persuaded to grow trees where they should be growing food ❑ <i>Displacement of grazing</i> - leading to increased pressure on other land and disputes between growers and herders ❑ <i>Spread of weedy non-indigenous species</i> – some plantation species have notorious reputations as invasive species associated with loss of biodiversity and arable land ❑ <i>Incentives to clear natural forest and plant exotic trees</i> – it is possible that communities or smallholders may clear natural forest areas on their land to plant the trees desired by the company 	<ul style="list-style-type: none"> ❑ <i>Conversion of plantations to another use</i> - if plantation owners see value only in the trees, there are risks that they will simply “cut and run”. Where species conversion occurs, it is often argued that valuable environmental services are lost. The strength of this argument depends on the characteristics of the plantation ❑ <i>Degradation as a result of overgrazing or neglect</i> - licensees may choose not to invest in forest maintenance and protection. Again, plantation degradation is frequently blamed for lost environmental assets. ❑ <i>Destruction of biodiversity, landscape and watershed values</i> - forest survey and management planning may not put as much weight as would local people and NGOs on the value of ‘non-productive’ assets such as biodiversity, ancient monuments, ancient trees and watershed services ❑ <i>Increased pollution</i>. This may be caused by ‘cutting corners’ to reduce costs, e.g. spillage or unsafe disposal of waste engine and lubricating oil

All of the above concerns and fears have played out in other countries. Some result in opposition to partnerships. Whether or not concerns are justified, in some cases opposition has been strong enough to block plans – such as in government proposals to sell off plantations in the UK. In other cases concerns go unheeded and store up problems that emerge later.

❑ It will be vital in Kenya to acknowledge the legitimacy of some of these concerns already expressed, and to anticipate the emergence of others. Any policy or initiative has economic, social and environmental impacts and they need to be carefully assessed. Concerns have to be carefully examined and worked through to achieve the tricky balance - of reasonable profits for enterprise, productive use and conservation of biodiversity, and substantial returns to local livelihoods - that forestry partnerships in Kenya must be shaped to deliver.

□ CHAPTER 2: POSSIBLE MODELS FOR FORESTRY PARTNERSHIPS IN KENYA

□ This chapter, examines emerging and potential forestry partnership arrangements of three main types in Kenya: Firstly, cases of joint, or participatory, forest management between the government and communities where there is a substantial community forest enterprise component. Secondly, partnerships between businesses and farmers for the growing of pulp, fuelwood or timber on private land. Thirdly, partnerships between the government, businesses and communities for growing and managing plantations on government land through concession arrangements. These models have begun to be discussed jointly by the private sector, civil society and government⁵. It has been proposed that they be investigated further over the coming months such that the most promising be developed as model initiatives, and financially supported where necessary, from which others can source lessons and inspiration.

□

2.1 Participatory forest management enterprises for wood production in government reserves

□ The Forest Bill refers to communities applying to the Chief Conservator of Forests for “permission to participate in the conservation and management of a state or local authority forest”. There are a variety of forms of community involvement in reserves – generally being termed in Kenya ‘participatory forest management’ – for our purposes we are primarily interested in those existing and possible cases in which there is a substantial timber or fibre production component. Box 2 outlines a case where a community run sawmill working off plantation timber is part of the management system.

□

□ Box 2

□ Ukambani Integrated Natural Resources Management programme

□

□ This programme covers Machakos, Makueni, Mwingi and Kitui Districts and is supported by the Belgian government (it started in 2002, runs to 2005, and has a total budget of 4 million Euros). It is styled as a pilot project for the Forests Bill and involves community based management of forested hill areas (as well as agroforestry, water and soil conservation and charcoal production technologies, product marketing and micro-credit). Hill Conservation Committees have been formed on 15 hills, with a direct target group of some 3-4,000 households. Joint management with government of an area of reserve is included in the initiative and there is a range of components linked to this, including micro-enterprises such as beekeeping. Downstream horticulture is also linked - with some proceeds going back to water conservation in the watershed.

□

□ A mobile sawmill run by the community on a commercial basis has recently begun operating in areas of plantation – it is planned that it will utilise 3000m³/year (buying at normal prices from government) with 50 employees in the mill and woodworking shop initiative. Training and registration of a private association under the Company Act (486) is anticipated – as is transfer of the mill from project to community ownership over the life of the project. The cost of the “industrial forest management unit” is put at 490,000 Euros.

□

□ Of the money paid in royalties in this participatory forest management scheme, government is supposed to keep 50%, with the remaining 50% paying for community work in re-planting and other community initiatives in the forest such as beekeeping (as prescribed in the

⁵ e.g. at a Forest Investment Workshop hosted by the World Bank and PROFOR in Nairobi on 17 November 2004

Forest Bill). Although the project has been going for some time, the mill component was very slow to be approved (it required an exemption from the logging ban – and there were big objections from existing sawmillers and sawbenchers) This part of the project is only just starting.

□

□

□ Box 3 provides the example of the Green Belt Movement's recent programme with government in forest reserves. As yet this case does not involve production of timber or fibre but is included here as an example of key institutional factors that need to be taken into account in partnership arrangements.

□

Box 3 Green Belt Movement in plantation areas in the Aberdares near Nyeri

Nobel laureate Hon. Wangari Maathai's Green Belt Movement (GBM) has energized considerable numbers of community groups in the area since 1977. Over the last year or two there has been interaction in the forest reserves. Community nurseries produce seedlings of "indigenous" trees with GBM providing the poly-bags. The Forestry Department collects these and brings them up to their nursery inside the reserve. On particular days, the community groups are mobilised by key GBM personnel and help the FD to plant these seedlings in designated patches in the reserve. On other occasions the groups are reluctant and the FD uses casuals.

There is a poor mix of species so far in the farm-based nurseries – seed is mostly collected from farm areas – with seedlings not doing well in the forest (non –indigenous Mexican Mountain Ash and Jacaranda can be seen planted alongside the indigenous *Prunus Africana* for example). A rule of thumb for the nursery work seems to be "any broadleaf will do as long as it does not look exotic". The GBM is against grazing and Non-Resident Cultivation in the reserve – but many in the communities want both.

There are about 40 nurseries in the community linked to production of indigenous trees for planting in the one reserve examined. About 10 people (men and women) are linked to each nursery. They get paid Shs 5 by GBM for each surviving seedling (there is some variation in when they get paid – some get paid straight away, some have to wait a month or two until 'survival' is proved). Some grumble that this is not enough – others appreciate the income claiming that there are few other income-generating possibilities.

The Forestry Department – under pressure from the GBM - has been developing zoning plans for the reserves with plantation areas which were wrongly sited, e.g. on steep slopes and riverine areas, to be replaced with indigenous species. Zoning plans also include some areas for natural regeneration and other designations. Meetings are currently underway with the GBM to develop a better approach with the community groups now that the zoning plan is done – including how long term (up to 7 years) care for the planted trees will be carried out. The Forestry Department would be amenable to a plan which involved controlled grazing (the FD used to manage this fairly well), and effective shamba system, beekeeping and fuelwood collection.

Challenges lie ahead in developing an approach which can deliver a sustainable balance of outcomes: . restoring the indigenous forest, ensuring preservation of biodiversity, protecting watersheds, and producing significant contributions to local livelihoods. (For example, can the GBM go on paying indefinitely? If not, there is a need to develop other income streams for communities – such as those that can be gained from well-run plantations (e.g. grazing, farming and shares from sale of industrial roundwood)

2.2 Outgrowers of pulpwood - PanAfrican Paper Mills

- In areas within an economically viable distance of Webuye, the site of the pulp mill run by PanAfrican Paper Mills (PPM) an outgrower scheme to produce short fibre for the mill at reasonable cost to the company, whilst providing attractive returns to farmers, has much potential. The company is also implementing an energy substitution programme – switching from imported fuel oil to biomass resources to feed some of its boilers.
-
- PPM has begun a survey investigating biomass availability and growing potential with farmers in areas up to 100km from Webuye. Although there are considerable on-farm tree resources available already (common species include Sesbania, Grevillea, Eucalyptus, Markhamia, Acacia, Neem and Casuarina), which might be the focus of some of the arrangements made to meet the company’s fuelwood needs, it is recommended that PPM take steps now to start developing a ‘dedicated’ supply – of both fuelwood and pulpwood. For both technical and market reasons a substantial part
 - (perhaps 60 %?) of pulpwood requirements would still need to be derived from long fibred softwood species in government plantations. Subject to the outcome of further engineering and land availability studies, it *may* be possible in the medium term
 - (beyond 2010), to secure perhaps 40% of the mill combined pulpwood /fuelwood supply from shorter fibred pulpwood species such as Eucalyptus or bamboo much of which could come from farmlands. PPM is currently reviewing the technical and financial viability of a switch to increased dependency on short fibred pulpwood species.
-
- PPM is developing a scheme, which can be adapted to several different farmers contexts, to grow Eucalyptus and possibly bamboo under short rotations. Depending on the Eucalyptus varieties used and the site conditions involved the rotation for this could be 5 to 7 years (3 harvests if coppiced twice). Allocations of land by farmers to Eucalypt growing could range from fractions of a hectare to many hectares. The appropriate regime for bamboo needs further investigation.

Box 4
Setting the scene for an outgrower scheme - PanAfrican Paper Mills (PPM)

- There are strong indications that PPM needs to quickly develop its arrangements for fibre and fuelwood sourcing from farmers. Initial assessments suggest that beyond 2010 PPM should be looking to secure some 40% of its total annual supply need of 750,000m³ of pulpwood and biomass from farmlands – small and large.
- Of the 85 larger farm households PPM has surveyed so far - looking at fuelwood/pulpwood production possibilities and land availability - 75% would prefer to plant Eucalyptus if planting new trees, 10% Cypress; 10% Grevillea and 5% Markhamia. PPM plans to expand the survey to 150 households. Farmers with as little as 0.1 ha which could be set aside for tree-growing have indicated their willingness to participate
- A fairly typical larger farmer in Lugari District – who has 40 ha under maize, sugar cane, coffee, groundnuts, bananas and tomatoes - is considering putting 2-5 ha under trees and is also interested in bamboo. Many labourers are employed over the course of the year and the crop change on these 2-5 ha may affect the type and frequency of labour required – thus affecting labourers’ livelihoods
- PPM proposes not to tie farmers to sell to PPM but to assure them of a market
- PPM currently has two big tree nurseries – at Webuye and Kaptagat – which combined have a capacity to produce 6 million seedlings per year. The company intends to increase this to 7 million seedlings a year so that it can have a supply of 1 million seedlings for farmers
- Since 1987 PPM has supported reforestation operations in about 40,000 hectares of plantations within its former pulpwood working circle.

- ❑ PPM has expressed interest in *Arundinaria alpina* – the only native bamboo species of Kenya. Commercial plantations or farm plots could be developed, perhaps together with exotic bamboos. Some farmers near Webuye have planted bamboo and PPM has begun to investigate bamboo extension approaches. Australia has a major bamboo industry (for bamboo shoots) – and it has been suggested that PPM recruit an Australian expert to investigate options further.
- ❑ PPM has been exploring possible improvements to prevailing systems of payment to outgrowers. For example in tea and sugar-cane outgrower schemes the cash return to the household comes in one lump sum cheque after 18 months to 3 years – generally in the name of the man as the title-deed owner. Typically the man heads off to party and the money is not seen in the household. Women would favour smaller more regular payments
- ❑ PPM is interested in three District Development Plans in the vicinity of Webuye which have 70,000 ha of “non arable land” held in trust by County Councils. Some of this will be hills and swamps, but some seems to have potential for tree-growing

- ❑
- ❑ It will be important for PPM to involve both small and large farmers. From a poverty-reduction and livelihoods viewpoint it is appropriate to consider both large and small plantings since the benefits to poor people of tree growing on larger farms may accrue through casual or permanent employment and possibly through sale of non-timber forest products. Annex 1 provides a simplified draft agreement of the sort that could be administered with small farmers, either by the company or an intermediary agency.

- ❑ Key questions to work through in further developing PPM outgrower schemes include:

- ❑
 - Employment effects on the landless and labourers of the introduction of the scheme
 - Differential effects on gender of the introduction of the scheme
 - Payment and loan schedule to farmers – e.g. pay for surviving trees on a yearly basis rather than one big sum at the time of harvest? If so, how to deal with those who renege on the deal?
 - Inputs and extension work required
 - Organisational initiatives needed for many small farmers to engage effectively with the company
 - How to phase the scheme in and the possible use of “model farmers”

- ❑ It will also be important to develop the outgrower scheme as part of a long-term fibre production strategy which would include a pulpwood working circle and possibilities for integration with sawlog production involving other processors. This means for example that the best softwood logs should be utilised as peeler logs, whilst thinnings, branches and off-cuts of the trees supplying such logs would be used for pulp.

IFC’s Corporate Citizenship Facility has been identified as a potential source of funding for further analysis and field testing of PPM’s outgrower scheme.

2.3 Outgrowers of fuelwood – small tea growers and factories

- ❑ The tea industry brings over US\$400 million into Kenya each year. The country is the largest exporter of black tea in Africa and the third largest in the world. Small-scale farmers grow more than 80 per cent of it (a total of about 250 million kilos per year),

while the rest is by large-scale producers. Small-scale farmers market their produce through the umbrella Kenya Tea Development Authority (KTDA), which is in charge of collection, processing and selling of processed leaves. There are many small tea factories with links to farmer tree production. Whereas the larger tea companies tend to have their own land for plantations (see Section 2.4 below), the smaller factories around Mt Kenya, the Aberdares and Kericho are more likely to deal with small growers for both tea and fuelwood.

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□ Box 5 illustrates the conditions under which outgrower schemes for fuelwood may emerge amongst these smaller tea growers and factories - and the kinds of issues that will need further investigation in developing them. In addition to these issues is the need to consider fuelwood production in relation to the likely future viability of other energy sources. For example, several of the Mt Kenya tea factories are considering generating their own hydro-electricity (they are currently forbidden by law protecting the government's monopoly in power generation) in which case their need for fuelwood would drop dramatically.

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Box 5
Small tea factories linked to small fuelwood growers
- Kenya Tea Development Association

There are about 18 KTDA factories on the slopes of Mount Kenya. With the price of furnace oil steadily increasing, several of the factories have converted to fuelwood for all or part of their energy. Several have formed a separate joint venture company for fuelwood growing, and the trend is towards buying their own land for tree growing where they can. Land is in short supply for some and several of the factories are looking to arrangements with farmers. The Rukuriri Tea Factory in Runyenjes is typical:

- The factory started in 2002 to convert from furnace oil to fuelwood. Currently one of its three boilers is running on fuelwood. Use of the oil and wood mix has reduced costs from 8 Shs/kg of made tea to 5 Shs/kg. If it was purely wood the cost would be about 3 Shs/kg of made tea.
- Since 2003 the factory manager has become concerned that farmers are cutting the windbreaks around their tea as well – to sell for wood and fuelwood.
- Wood requirement is about 8000 m³/year (1000 m³/month on peak for 6 months, 300m³/month off peak for 6 months)
- The factory pays 700 Shs/m³ of wood. Supply of wood is greatest in the dry season and the company tends to fall short in the wet season – when farmers do not want to fell trees because crops are growing. The wood rots if left out – the company needs to build a storage shed.
- The factory is now selling Grevillea and Eucalyptus seedlings at Shs 1.5 each alongside tea seedlings. Demand is high although many small farmers feel that they do not have room to plant trees.
- Four extension agents are employed by the factory to advise farmers on trees as well as tea.
- The factory has recently bought 10 ha of its own land to plant trees – and has planted eucalyptus hybrid (*grandis-camuldulensis*). It would like to build up to 80 ha of its own land for trees. If this was all planted with Eucalyptus hybrid on a 4-year fuelwood rotation the yield could be 4000m³/year (at 50m³/ha/year), which is half of the supply needed (for its current oil-wood mix). The factory is therefore likely to need to keep expanding its work with other wood farmers.
- Some farmers with relatively large holdings are coming to the factory looking for contracts – so the factory might not need many outgrowers

2.4 Timber and pole outgrowers and community schemes – large tea and coffee companies

Large-scale producers of Kenyan tea include Brooke Bond, George Williamson, Eastern Produce and James Finlays. Unlike small-scale farmers, large-scale growers are responsible for processing and marketing of their own crop. A number of large tea companies have their own fuelwood plantations and, along with some large coffee companies such as Kakuzi, are increasingly interested in pole and timber growing in their product diversification strategies. Williamson's, which works with smaller tea outgrowers than some of the other large companies, is exploring timber and bamboo production with groups of smallholders. Kakuzi has moved into pole and timber production quite aggressively on its own land since coffee prices have dropped.

Kakuzi and James Finlay have discussed formation of a Kenya Timber Growers and Preservers Association. This comes in the wake of a tussle with Kenya Power and Lighting Company (KPLC) over tender bids for supplying treated transmission poles. KPLC early in the 2004 engaged Treated Timber of South Africa to supply 33,000 poles under a tender worth Shs 382 million following a bid process in which Kakuzi and Finlays were co-bidders. The Kenyan companies have argued that the supply is available in Kenya and jobs have thus been exported. They claim that without such contracts they will have to diversify into other areas. The Energy ministry has insisted that there is no clause in the procurement laws guaranteeing local suppliers preference.

Box 6

Large tea company considering timber production with outgrowers and communities – James Finlays

Finlays is a large tea company with plantations in Kenya, Uganda, Bangladesh and Sri Lanka. It focuses on the manufacture and sale of black tea, green tea, instant tea and decaffeinated tea. It produces 55million kgs of tea each year of which 23 million kgs is from Kenya. It also has a cut flowers business in Kenya, with 45 hectares of roses and carnations grown under cover for the European market. The company also has a hydroelectric plant in Kenya.

Of a total estate of about 10,000 ha the company has 2200 ha of its own fuelwood plantations. Finlays has increased its fuelwood requirement in recent years - its instant tea factory in Kericho uses lower grades of tea but a lot more fuel than standard tea processing. The plantation provides most of the company's current fuelwood needs.

The company works in partnership with a few large tea outgrowers. There are currently 12, with a plan to add 10 more this year and perhaps 10 more the year after. Finlays tries to persuade them to plant trees as well as tea – and sells tree seedlings at cost - but only slow progress is made on this. Conditions in the tea growing areas for tree planting are excellent - very good growing conditions and a long planting year.

□ In Bangladesh and Sri Lanka Finlays is already growing and processing timber and is considering this in Kenya too. However, buying more land in the areas where the company operates is difficult. Instead, Finlays is exploring other initiatives. It is working on two community-linked parcels of land. One of these is 480 ha growing fuelwood for tea – mostly Eucalyptus – the other is 200 ha growing timber as well as fuelwood. Thinnings are currently being made and the

communities involved are gaining benefits from these. Timber buyers have become interested.

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- The company is also interested in working under concession to government in partially planted areas in forest reserves. Finlays would be keen to work with neighbouring communities to repair the area – under a modified and properly-managed shamba system. After the 3-year intercropping period, the communities would own the tree thinnings and some controlled grazing would still be allowed. The company is working out its proposals for a balance of up-front payments to communities with shares of final revenue.
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- The company is also investigating schemes for co-generation of power using fuelwood. It has estimated an 18% rate of return on these (so in 4-5 years the capital pays for itself). Ways of engaging with the Clean Development Mechanism, and the possible advantages of certification are also being explored.

2.6 Other company-farmer tree-growing arrangements

□ There are a wide range of other existing and potential arrangements between companies and farmers for tree growing which deserve further exploration. The following short list is indicative only:

- *Tobacco growers.* In the major tobacco-growing areas of Nyanza and Meru, various companies have arrangements with farmers. British American Tobacco (BAT) for example produces seedlings, mostly Eucalyptus. Farmers buy them at nominal rates and BAT buys back the wood.
- *Naivasha horticulturalists.* Horticultural businesses have a proposal to grow Eucalyptus in an area downstream of Naivasha town to help filter sewage before it passes into Lake Naivasha. It is proposed that the wood be used to make charcoal. It is suggested that this would reduce indigenous tree use, reduce health spending and supply charcoal to horticultural workers and families at low cost. Lower charcoal prices would also reduce the incentive to produce more illegal charcoal.
- *Handicraft Associations.* Several handicraft associations in Mombasa, and e.g. Wamunyu in Machakos, are apparently developing initiatives with farmers
- *Cement factory.* Bamburi Cement has some area rehabilitation schemes involving communities and farmers. It is also a massive energy user and it has been noted that biomass production in nearby dryland areas has potential, with or without the possible fuel substitution linkage to the Clean Development Mechanism.

2.7 Concession partnerships – companies working with communities under concession in government plantations

There is currently a ban on any further licensing in government plantations. However, it has been proposed that well-organised and managed partnership arrangements between government and businesses, with communities either as third partners or at least heavily engaged, are desirable and workable. This view is supported by the consultant, and the term ‘concession partnerships’ is used here for this type of arrangement. It is hoped that the Forest Bill when enacted will permit such well-developed concession partnerships.

It is proposed that pilot arrangements are developed with sawmills willing to consider revitalising their mills in combination with replanting and managing plantation areas in partnerships with other enterprises and communities. It is unlikely to be politically

feasible or socially desirable for one milling company to operate exclusively and alone in a large area of plantation. A consortium approach would be necessary with one or more larger businesses, with forestry and milling capability, teaming up with smaller forest enterprises and communities to bid to manage particular packages of government plantations. A competitive allocation system would be required with price being one of several economic, social and environmental criteria.

Investment support is likely to be needed as part of the scheme - to upgrade mill machinery and reduce waste, and to get better bandsaws, tractors etc for the smaller operators. A 25 to 30 year concession agreement is suggested, with continuation of terms dependent on 5-yearly performance monitoring by government. Plantation areas involved would be between 1000 and perhaps 5, 000 ha under effective management plans. Longer term concessions and larger concession areas could also be examined (see also Sedjo, 2004). Companies will need to secure or acquire forestry skills and the social skills and capability to work with communities and others partners.

Concession allocation should also prove to be a subsidiary means for government to promote integration of several end uses for quality logs – e.g. peeler logs and slicing logs for ply and veneer, other portions for blockboards and particle boards. The other main means for government to pursue this objective is through reform of the royalty system – with its much-discussed varied royalties for tree sizes and qualities e.g. higher royalty for big girths – so they are more likely to become more valuable peeler logs.

□ Despite some earlier bad experience with the “shamba” system ‘Non-resident cultivation’ remains potentially the most effective system for low cost plantation establishment. It offers an opportunity for reduced cost of establishment and improved survival rate on one hand and increased food production and employment on the other. This approach has the potential to reduce land use conflict, particularly if the allocation process is fair and provides for continuity of farming benefits. Tree survival rate is improved through weed control and improved protection against fire and animal damage. However the following improvements to the system used in the past are amongst those widely debated that look necessary:

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- Company officers, forest officers and cultivators should develop the rules together – based on national guidelines (established procedures) with some local variation - agree them, and follow them, particularly in relation to stipulated length of cultivation.
- Management committees involving farmers need to be developed in each station – to monitor implementation and manage the dynamics of the system.
- A firm regulatory basis is needed for the system by gazetting the national rules as subsidiary legislation to the Forest Act.
- Agreements to community shares of the thinnings and final harvest need to be considered – this will give communities greater return for their increased assistance with protection and a longer-term stake in plantation management
- Farm plot allocation needs to be based on successful performance on prior plots – i.e. develop incentives for good practice by the cultivators, and peer pressure amongst them

Community and small enterprise consortium members would also benefit from small businesses based on timber, and e.g. charcoal from off-cuts and sawdust.

Box 7

Snap-shots of some saw mills interested in concession arrangements with government and communities

Gachagua Saw Mill in Elburgon. Currently barely ticking over. When it was fully operational before the logging ban, the company used to produce about 50m³/day from about 110m³/day input. There were about 250 employees and the mill operated for about 312 working days per year. About 35,000m³ of logs was thus needed each year. On the basis of a final cypress or pine crop for clear felling after three rounds of thinning at about 260 stems/ha, the mill would have thus needed about 1650 ha of plantation to run at this capacity.

Kinale Sawmills in Kinale. Machinery currently mothballed. The company employed 400 people at its peak – with a workers' village on site for 200 people. Cypress was the main timber used – about 40,000m³ raw material/year drawn from 2000 ha. If there are about 600 stems/ha at 1.5m³/stem, discounted by 50% because of poor management, then there are perhaps 450 m³/ha if clear felling. If running at full capacity the mill needed about 88 ha per year. If running at 50% capacity then the mill needs about 40 ha per year – although some will also come from thinnings in other areas, so a bit less than this is needed. If replanting was to take place at about 20 ha/year – perhaps more in the first few years – the costs would be about US\$1000/ha. There are about 4000 ha of unplanted area in the nearby on-reserve plantations – so about US\$4million would be needed. The manager of the mill estimates that to service and upgrade the milling machinery and to reinvest in logging equipment would require about US\$1million in total. A rough figure of US\$5million can thus be put on the total needed to rehabilitate the Kinale industry. Running at 50% capacity the mill would pay about US\$600,000 per year in royalties.

Kamburi Sawmill in Meru. This is a very small mill in the town – with basic circular saws - yet is perhaps the largest left operating in Meru (another large mill, Wason Timber, which had been operating since the 1920s, is now closed). The mill used to be an active buyer of plantation timber but is currently working off farm timber, mostly *Grevillea*. It pays Shs 700/m³. Workers at the mill are currently making pallets for the forklifts at the tea companies. Other markets are largely out-competed by rough timber cut by chainsaw and mobile benches on the farms. Many of these *jua kali* operators do not get permits, but there are plenty of them. The manager of the mill estimates that there are about 80 tractors involved in bringing wood into Meru. He believes millers capable of useful cooperative action – they used to have a millers association – and regards communities as the solution to plantation establishment.

Mt Kenya Sawmills in Nanyuki. The mill has quite advanced machinery – band saws, multi-rip saws, moulding machines – although these have barely operated for the last 4 years (like about 4 other mills in the town). The company has survived by making up block board – buying ply from Raiply – and some furniture, beehives, etc. The business has also diversified into wheat farming, having just bought about 70 ha of wheat land. It plans to plant trees in gullies etc – and would be very interested in linking with other farmers to make forest farming viable. Mill capacity is about 50m³/day raw material input to produce about 28m³/day output (an extremely high level of recovery by local standards at 65%). The mill thus needed about 12,500m³/year. If about 300m³/ha is obtained from clear-felling then about 40 ha/year is needed which, assuming a 25 year softwood rotation, equates to a total plantation need of about 1000 ha. There are about 5000ha of plantations within an economic distance of Nanyuki, which is reckoned to be about 80km, which appears to explain the previous viability of the 5 mills in the town. The company would like to enter a partnership for a plantation concession, working with communities. It used to run its own nursery, giving some seedlings to those replanting. The main problem for plantations in the area is damage from elephants and other large mammals. While the shamba system was operating the elephants largely kept away but after the 3-4 years during which the system operates the tree still need protection. Simple 2-strand fences attached to the trees can be used.

Sembi Sawmills in Kakamega. This mill used to produce about 8-9 tons/day at a recovery rate

of about 42%. It had a 5-year plan licence up to about 1988/89, after that it worked on licenses with a 1-year basis. The company hired only local people and had 150 employees for all operations; down to about 50 now. Now the mill only works on chainsaw lumber brought to the gate. The manager estimates that chainsaws currently produce about 95% of the timber, with pitsawyers producing about 5%. He has the right milling equipment if given the chance to partner in a concession arrangement but would need to invest in forest machinery and transport (caterpillars to load/offload and a lorry). He believes that concessions will work under a semi-autonomous Kenyan Forestry Service, but would prefer it if the service is fully privatised. Cooperative consortia would work – enabling the government to deal only with a few representatives rather than all players. He is sceptical about investing in farmers tree-growing since farmers are prone to selling of passing on the land to relatives during the time trees take to grow.

Raiply in Eldoret. (Joint ownership with TimSales in Elburgon and Comply in Kericho .) This is the largest solid wood processing company in Kenya – producing fibre-board and particle board as well as ply. Each of the three Rai-owned companies currently pays Shs 60,000 annually for its licence. Apart from PPM, they are the only companies to have licences to operate in government plantations. Raiply operates in three reserve areas – and claims to harvest 180-200 ha/year. About 36 full time forestry staff are employed – although with pruning etc, the total employment in forest areas is about 400 people, plus casuals. The royalty paid is Shs 1400/m³ . The largest softwood logs are designated peeler logs, other parts of the tree are used for particle board. The company uses the “whole tree” - saw dust, bark and branches go into the boiler for energy. Congolese mahogany is bought and used for slicing, after boiling for 3 days. On relations with local people the company points to its 6 nurseries which employ 200 local people. When the seedlings are ready, after 2 years, the same communities are hired for planting. They can plant about 700 ha in a good year, about 550 ha if the rains are not favouring. Raiply is reluctant to consider partnerships with farmers because it is very focused on pines which it believes take too long to grow for farmers to be interested (Eucalyptus is not appropriate for slicing and cannot be peeled – at least under current technology). It sees possibilities for securing some future faster-growing softwoods from Europe. The company would consider “joint ventures” – cost-sharing - with larger farmers (40 ha plus).

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CHAPTER 3: EXPERIENCES FROM OTHER COUNTRIES

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- Two recent bodies of work steered by IIED provide a strong basis of comparative analysis of international experience to draw on:
- Company-community forestry partnerships - summarized in a book by Mayers and Vermeulen (2002)
- Changing ownership and management of state-owned plantations – summarized in a book edited by Garforth and Mayers (2005)
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- To illustrate - the following examples from experiences in Zimbabwe, Ghana, the Philippines and South Africa summarise some of the lessons learned that that could of special relevance to Kenya.

□ **Tailored outgrowing contracts for transmission poles: 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 (Desmond and Race, 2000).

□ **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. (Kotey *et al*, 1998)

Rise and fall of a long-term pulp 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.

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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. (Mayers and Vermeulen 2002).

Juggling social and economic goals: partnerships involving the private sector in government plantations in South Africa

Post-1994 policies in South Africa called for radical changes in the way forests are managed to achieve national goals. A strong agenda emerged for privatisation of government owned forests, but concerns were equally strong about the consequences of transferring full land title. A policy decision was therefore taken not to sell state forest land, but to offer use rights to it through the mechanism of the long-term lease.

Some 516,000 ha of government land, of which 322,000 ha was planted, has been offered to bidders since 2000. Investors were invited to bid for a 75 per cent shareholding of each package (of which at least 10 per cent needed to be black owned). Minority shareholdings in each are held by: government (6 per cent); workers (9 per cent); and the National Empowerment Fund (10 per cent).

The lease includes:

- ❑ An effective minimum 70-year duration (a 35 year term followed by a 35 year notice period – for most plantation species at least two rotations could be grown to maturity in this period).
- ❑ The tenant pays a market-related rent to use the land. The value of the standing tree crop is not taken into account in determining land values.
- ❑ The tenant gets full, undisturbed possession of the land subject to the requirements of the Forest Act that allows public access for cultural, spiritual and recreational purposes.
- ❑ The Tenant is issued with a License to operate.

Leasing is based on the belief that the transfer of ownership rights is not necessary for a resource to be well managed if use rights are sufficiently secure, and a recognition that incentives – specifically secure and tradable use – are more likely to achieve sustainable management than regulations alone. In addition to the lease the government had two other main transfer instruments at its disposal. Firstly the transaction itself, embracing the initial statement of weighted bidding criteria reflecting government's priorities, the investors' competitive responses to those criteria, and the final negotiated terms of the sale between government and the preferred bidder. Secondly, the existing legislative framework, defining obligations in respect of forest management, land issues and labour relations.

As of 2004: about 119,000 ha have been sold under lease in two main packages; about 235,000 ha are still under negotiation in two more main packages; and about 162,000 ha in the Western Cape have been withdrawn from the process and a 20 years strategy prepared to convert these areas to other land uses.

- ❑ Key lessons from the experience include the following:
 - ❑ Set clear, politically acceptable objectives through consultation with key stakeholders and reference to sector and macro policy.
 - ❑ Communicate the objectives clearly and early to potential bidders and take feedback on their reaction to determine the feasibility of achieving an acceptable transaction.
 - ❑ Maintain dialogue with stakeholders as the process unfolds, and as delays inevitably arise.
 - ❑ Use the various instruments within the transaction to achieve the multiple objectives:

- ❑ Use the bid process as a market instrument and evaluate bids (transparently) to select a preferred bidder.
- ❑ Use the sale of business agreements to secure commitments to economic development including down-stream processing.
- ❑ Use the lease as the central instrument to transfer to the private sector use rights over state forest land (and avoid loading the lease with other issues that can be covered elsewhere).
- ❑ Use existing legislation to regulate. Try to allow the leaseholders to operate on a level playing field with other private companies, all of whom must operate within the law.
- ❑ Balance incentives for sustainability with regulation. If the lease provides the private sector with long-term security to yield a return on its investment and the right to trade its investment, then it has an incentive to manage the resource to its full potential rather than ruin it.
- ❑ A requirement for certification in the lease enables government to transfer much of the cost of monitoring and reporting on sustainability to the private sector operator.
- ❑ Create adequate capacity to manage government's residual responsibilities in terms of the lease and other transaction commitments.

Sources: Mayers, Evans and Foy (2001); Smith and Smith (2002); Dlomo and Pitcher (2005)

CHAPTER 4: WAYS FORWARD – AN OUTLINE WORK PLAN

4.1 Suggested next steps

This chapter proposes a way forward. The general suggestion is to proceed with a process of further investigation, design and support of a range of partnership initiatives that produce wood or fibre on a sustainable basis whilst bringing improvement to local livelihoods. To do this, several main steps seem to be needed:

1. To expand the list of other promising existing or potential initiatives not covered in this discussion paper, and to get basic information together on these
2. To generate criteria for fine-tuning and reducing the list to a manageable size
3. To further investigate the initiatives on the list
4. To identify which initiatives would benefit from targeted external support
5. To design appropriate interventions in support of a selected number of initiatives that need it

□ Whilst these steps are under way a process of securing potential support for the initiatives that make it through to step 5 would also need to be initiated.

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□ Terms of reference for a working group to take these steps forward are outlined below. Checklists of key questions which need to be answered for each of the main potential initiatives are summarised in Annexes 2 and 3. Annex 2 provides a checklist for issues to work through in investigating business-community or business-smallholder partnerships. Annex 3 provides a similar checklist of issues to work through in investigating concession partnerships.

4.2 Outline Terms of Reference for a Working Group

Purpose: To build on the initial analysis prepared and further analyse the range of partnership possibilities for wood production, conclude on some best bet options, and prepare these options for a first pilot phase of implementation.

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Outputs:

1. An analysis of viable partnership options
2. Initial designs for pursuing the best bet options
3. Preparedness to proceed, amongst the parties in these best bet options, and amongst those responsible for necessary critical policy decisions

Make-up of the Group: 3-4 people with expertise in forestry, law and policy, forest and land use economics and social-livelihoods analysis. The Group will have a Coordinator with overall responsibility for delivering outputs.

□ Subject to reactions of an ongoing high level Kenya government Forest Restructuring Committee to the recommendations of this study one possible option might be to arrange that this Working Group should report at regular intervals to a multi stakeholder representative Kenya Forestry Investment Advisory Committee appointed by government and by the proposed Kenya Forest Service. This Advisory Committee might include for example, representatives of the Ministries of Environment and Natural Resources, of Finance, of Industry and of Economic Planning. It could involve the Timber Associations, conservation groups such as WWF, the KFWG and Forest Action

Network and representation of leading policy research institutions such as KEFRI and ICRAF. Also private sector financial interests such as some of those that are members of the East Africa Business Summit Environmental Committee. Such a Forest Investment Advisory Committee could play a useful role in periodic monitoring of progress towards satisfactory partnership arrangements and in helping to resolve political, technical and or other constraints that are likely to arise,.

Suggested activities for the Working Group

1. Further explore - through discussions with the private sector, government and civil society – the options described in this study and other potential options that emerge through such discussions. The aim of this is to spread the net wider than the analysis in this study, and gain a reasonably comprehensive picture of possible options.
2. Draw up a suggested 'best bet' list of options. The mechanism for generating this list will be as follows:
 - (a) Assess each option against the following general criteria:
 - Sustainability potential – in social, environmental and economic terms
 - Presence of major learning opportunity on forestry partnerships
 - Visible to the public - multiplier effect
 - High priority amongst key actors
 - Existence of demand from local stakeholders for tackling relevant key problems
 - Timeliness and topicality in relation to windows of opportunity in policy
 - (b) Amongst the options that meet the criteria, select a practical list that achieves:
 - A mix of partnership types
 - A reasonable geographical spread
 - A mix of those that need minimal and substantial external support
 - A doable list in terms of the external support that might realistically be secured in the time available
3. Analyse the potential options, integrating the perspectives of:
 - Forestry and land use practices
 - Stakeholder livelihoods analysis: impacts, winners and losers, and potential capability and mechanisms for optimising poverty reduction and local livelihood benefits under partnerships
 - Institutional strengths, weaknesses and relationships
 - Economic costs and benefits of current and potential practices
 - Policy, legal and political constraints, opportunities and ways forward
4. Prepare outline designs for economically, socially and environmentally viable partnership pilot schemes, including practical arrangements for:
 - Forestry system (or other tree/fibre production system)
 - Roles and responsibilities
 - Institutional and procedural arrangements – including outline contracts

- ❑ Allocation and management of risks, costs and benefits
- ❑ Practical policy, legal and political actions needed
- ❑ Accessing private sector funding
- ❑
- ❑ Scales and modalities for “kick starting” funding of partnership initiatives may need to pay special attention to:
 - ❑
 - ❑ Alliances and degrees of organisation amongst farm foresters and community groups to investigate and negotiate for better partnerships
 - ❑ Ways of bringing partnership opportunities to the poorest groups
 - ❑ Development of private sector associations with the representation and capacity of small and medium enterprises
 - ❑ ‘Marriage guidance’ initiatives that: provide route maps to practical partnerships; make sense of opportunities and constraints from government and other external agencies; and provide local level information, facilitation and mediation services for development of specific partnerships
 - ❑ Capital equipment upgrades for partnerships to manage concessions and wood processing enterprises effectively, efficiently and equitably
 - ❑ Development and spread of understanding about practical arrangements for efficient and equitable partnerships

4.3 Time frame and scale of inputs needed:

A period of about 6 months will be required for this work, with group members putting in several weeks work over the period. Pending government and other stakeholder reactions to the recommendations of this and related World Bank /PROFOR studies it would be premature to develop an accurate budget for implementation of the Work Plan outlined above. However it seems certain that the cost will be at least \$ 1 million. Whilst that is a daunting sum it should be noted that many of the activities suggested above have in the past or are currently being supported, by various donors and technical assistance agencies especially Finland, DFID and JICA (all of whom are PROFOR donors) and by FAO. Future donor support could also be sought from Belgium USAID, JICA, DFID, the EU, the Netherlands FAO, UNDP and IUCN. It is likely that some elements of this proposed Work Plan could be folded into ongoing activities being supported by such donors.

Some of the proposals in this study should fit well with ongoing activities being supported by Kenya’s NGO community (especially WWF through the World Bank/WWF Alliance) and by the Kenya Forest Working Group and Forest Action Network. They also resonate with the objectives of industrial groups such as the Timber Industries Employers Association, private sector investment Groups such as “Miti Mingi” and members of the East Africa Business Summit Environment Committee who met with the Minister for Environment and Natural Resources in November of 2003 and pledged strong commitment by the private sector to establishment of new forest resources.

IFC has long been an investor in Pan African Paper Mills and has a keen interest in ensuring that questions of PPM future wood supply are finalised as quickly as possible in a way that takes into account the industrial roundwood requirements of other types of forest industry. As noted earlier, IFC’s Corporate Citizenship Facility could be a potential source of funding for a pilot scale PPM outgrower scheme. IFC’s emerging Private Enterprise Partnership Fund may be willing to undertake the mobilisation of technical

assistance for further analysis of prospects for rehabilitating Kenya's small – medium scale wood based enterprises. Also for mobilising investment funds from local banks and other private sector financial institutions.

The World Bank in the latter half of the 1990's along with several other donors withdrew its support to Kenya forestry. This decision followed repeated failure by government to address forest related corruption and illegal excision of many of the plantations that had been established with Bank support. More recently, based on the determination of Kenya's current government to address these politically difficult issues and taking into account the possibility of a Forest Bill that would open the door for engagement of local communities and the private sector, the Bank has taken a decision to re engage in this sector. The Bank is providing support initially for forest related economic sector work such as this and other studies being jointly financed by the Bank and PROFOR. Dependent on the outcome of the Work Plan suggested in this study the Bank Group may be willing to support various elements of the governments programme for Forest Sector Reform. As a first step it has posted an Senior Natural Resource Management specialist (Richard Kaguamba) with long experience of forest related development programmes and policy dialogue to its Nairobi office.

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4.4 Developing support for the work and monitoring progress

□ In converting the above outline work plan into a full version to guide the Working Group's work, some of the characteristics of effective outcomes noted in Box 8 should be borne in mind.

Box 8 What will constitute success with this work plan?

Characteristics of an effective pilot preparation period:

Political buy-in

- Employ expertise in policy research, institutional development and good governance
- Strengthen relations between decision-developers and the ultimate decision-takers
- Work with the media

Buy-in by civil society and private business

- Clarify, utilise and build on the complementary skills of the private sector and civil society
- Use issues-based interactions
- Deal with unrealistic expectations

Capacity to manage the process effectively

- Maintain access to technical expertise
- Secure a dedicated budget against a reasonably flexible timetable
- Keep working to build effective capacity for prospective partners

Initial development of government's new roles

- Help clarify and communicate the powers and duties of the re-aligned regulating/ supervisory/ monitoring roles of government
- Build motivation to exercise these responsibilities
- Develop government systems to enable business-farmer partnerships and concession partnerships in plantations
- Develop government systems to provide ongoing support to farm forestry and community

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Characteristics that the pilots will need to demonstrate:

- ❑ Appropriate stakeholder engagement methods
- ❑ A proper understanding of all the stakeholders
- ❑ A phased and 'learning' approach – with room to experiment, fail, succeed and adapt
- ❑ Adequate resources, skills and time
- ❑ Demonstrable results and benefits, especially some 'early wins' to bring people on board and build momentum

4.5 Regional Implications

Much of what is being suggested in this study could benefit from further analysis of lessons being learned from similar partnership initiatives that are being tested in other countries of the East and Southern Africa Regions. It has been suggested that at a later stage, PROFOR might wish to consider providing seed funding to finance a regional Forest Investment Forum that would provide an opportunity for countries in the region to share such experiences. This could usefully build on earlier Bank /IFC experience of hosting a multi stakeholder Forest Investment Forum in Washington D.C. in October of 2003⁶.

⁶ See "The Forest Investment Forum: Investment Opportunities and Constraints." PROFOR 2004. That Forum was jointly supported by the World Bank/IFC/WWF/ Forest Trends and the World Business Council for Sustainable Development.

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ANNEX 1:
AN EXAMPLE OF A SMALLHOLDER TREE-GROWING AGREEMENT

SMALLHOLDER TREE-GROWING AGREEMENT

□

between

[COMPANY]

and

["the Grower" I.D. No. _____]

Grower's Physical Address:.....

Name of [social area]:..... **District:**.....

The Property to be planted:.....

The Property's GPS co-ordinates:.....

The Planting Spots:.....

Date of Commencement of Planting:.....

1. I, the Grower undertake to properly plant the planting spots on the property, as mentioned above within _____ months of the commencement date and to maintain the planting spots whilst the trees are growing.
2. [Company] will provide me with free seedlings and advance me certain amounts agreed to in writing by us for work done by me plus an annual amount provided that the work is done to [Company's] satisfaction, such amounts shall be deducted from the price paid for the timber.
3. I, the Grower shall sell to [Company] the timber from the planting spots when it is not less than 8 years old nor more than 10 years old at the published mill delivered price for [Company's]_Mill less the amounts loaned to the Grower by [Company] in terms of clause 2 and all harvesting and transport costs incurred in delivering the timber to the mill.
4. [Company] agrees to pay the Grower for the timber as per clause 3.
5. I, the Grower undertake to confirm the cumulative amount of my indebtedness to [Company], as per attached page whenever requested by [Company].

Grower.....

[Company].....

Date.....

Date.....

ANNEX 2

CHECKLIST OF ISSUES TO WORK THROUGH IN INVESTIGATING BUSINESS-COMMUNITY OR BUSINESS-SMALLHOLDER PARTNERSHIPS

Information base and expectations of the potential partners

- *How to generate and access sound information and forecasting?* Analysis and good record-keeping will be needed 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 good forest management practices, partner participation, wider community support. Effects on employment of the landless and labourers on farms, and differential effects on gender, of any anticipated scheme needs to be well anticipated.
- *How to develop 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 partnerships, and contingency scenarios if arrangements are nullified
- *How to ensure the proposed practices are consistent with sustainable forest management?* Partnerships should be based on local and national understanding of best practice forestry – preferably on locally-defined elements of sustainable forest management
- *What extension and technical support will be needed?* Especially in the early and late stages of tree growing rotations, when most forestry activity is needed, substantial extension and technical support is likely to be required. It may also be needed throughout to maintain mutual confidence through long growing cycles

Practical government actions

- *What practical steps to improve policy and institutions need to be taken?* Many changes to the ways in which government institutions and policies operate might be useful in fostering better partnerships amongst companies and communities or smallholders, but what steps are both crucial and realistic in improving, for example: the rule of law and its decentralisation; service provision; democratic process; tenure arrangements; infrastructure development; and investment conditions
- *What regulatory modifications or new measures are needed?* Modifications to tree harvesting and transport rules may well be needed. Some existing subsidised sources of supply to companies may need to be removed to develop incentives for the partnerships with communities. To complement voluntary enterprise social responsibility other regulatory developments may be required such as investment rules, tender processes, fiscal incentives and disclosure requirements
- *How to integrate business-smallholder/community partnerships in 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

Elements of good processes and contracts

- *How to develop flexible models and negotiated arrangements?* Arrangements need to be based on monitoring and review, and capable of adaptation to changing conditions and widely differing local circumstance. Experience suggests that company-farmer arrangements 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.
- *How to make arrangements sufficiently formalized and contributions secure?* The legal status of arrangements needs to be clear with written details of: rights and responsibilities; allocation of costs, benefits and risks; and arrangements for termination, recourse and compensation (see Box 10). Contributions from each party to the arrangement need to be secure – land committed to deals must have secure tenure, businesses must be viable, etc. Practical tenure questions are particularly important - e.g. how to ensure security of the company's interest if the farmer divides up the land or assigns it to a relative?
 - *How to invest 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
 - *How to make a start even when conditions are far from perfect?* 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.
 -

Box 9

Key elements of partnership agreements – what to put in a contract

- Clear representation of each partner
- Geographic boundaries and/or target population
- Objectives – both shared and individual
- Resource commitments: finance, time, skills and expertise, equipment, influence – capacity to lever resources from others
- Joint work plan: activities, schedules, indicators, roles and responsibilities
- Funding arrangements
- Decision-making principles and grievance mechanisms
- Procedures for information exchange and internal communication
- Capacity strengthening measures
- Risk prediction and mitigation measures
- Procedures for monitoring, assessing impact, review and adaptation
- Terms of termination

Source: Mayers and Vermeulen (2002)

Preparedness of companies

- *How to reduce transaction costs to make any partnership viable?* Developing arrangements with dispersed partners in variable situations requires many time and money consuming transactions. An explicit focus on making interactions more efficient is needed (not by minimising interaction with partners which can incur higher transaction costs later on as partners become dissatisfied with the low level of communication). Exploration of third party roles in managing transactions may also be important.
- *How to prepare to pay farmers 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. Companies may need to develop phased payment systems over the growing rotation to give farmers sufficient practical incentive.

- *How to develop company social skills and flexible decision-making for partnerships?* 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. 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. It may be important to pass control over budgets to field staff allowing greater flexibility and quicker institutional learning
- *How to deal 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. Companies may need to get better used to developing, presenting and debating business objectives in terms of impacts on people's livelihoods
- *How to prepare for, and stay ahead of, political and economic changes?* Companies that take up the challenge of socially responsible forestry and try out different partnership models before legislation requires them to do so are likely to have a competitive advantage later
- *How to develop 'responsibility' tools?* Companies should continue to explore corporate responsibility tools and systems 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

Preparedness of communities and smallholders

- *How to develop the right form and level of 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 partnership. 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. 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.
- *What are the best 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
- *How to plan pro-actively?* 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. It may be important to engage and develop claims with local government and civil society organizations. Smallholders and communities might develop, present and debate livelihood objectives in terms of enterprise opportunities and impacts. They might look especially for comparative advantage from land and location capability, low input costs and degrees of organization. Within communities, widespread knowledge of, and access to, partnerships requires serious

and sustained investment in distribution of information. It will be important to spread rights and responsibilities as widely as possible among community members

Roles of non-government third parties

- *What brokering, guidance and support roles from third parties are needed?* NGOs, development agencies and various forms of federations and associations may be crucial in supporting capability amongst communities and smallholder groups, as well as companies, for managing the negotiations and business of partnerships. 'Marriage guidance' and inter-agency cooperation initiatives are likely to be important - local level information, facilitation and mediation services, making relevant national and international links, lesson-sharing and impartial management and flow of market, social and technical information. Such services can also help promote awareness, alliances and capacity on corporate responsibility issues, tools and solutions among small and medium enterprise
- *How to develop collateral, credit and insurance arrangements?* Banks and development agencies may provide vital ingredients through loans to cover establishment and maintenance costs. Others may be needed to develop insurance systems for small-scale production and joint ventures
- *What third party monitoring and arbitration arrangements may be needed?* NGOs may be needed to play monitoring roles - reviewing progress, drawing out lessons for others and pointing to transgressions of agreements. Certification bodies may be needed to audit performance against social, environmental and economic criteria. Other bodies may be needed for arbitration if disagreement arises

ANNEX 3

CHECKLIST OF ISSUES TO WORK THROUGH IN INVESTIGATING CONCESSION PARTNERSHIPS

Governance foundations for concessions

- *How can rights be made clear, defensible and exclusive?* Land and property tenure needs to be secure, clear, documented and non-discriminatory against forestry. There need to be clear, equitable and legally defensible rights in place: rights to manage the forest resource (based on free and informed consent of others with legal and customary rights); rights to extract resources from public forests given in return for full economic compensation including externalities. In addition, stakeholders need to be aware of their rights and the avenues open to them to contest them. Holders need to be able to exclude or control the access of outsiders to the resource over which they have rights. There must be certainty about the boundaries of the resource to which the rights apply and about who is entitled to claim membership in the group.
- *How can regulation be geared to balancing private sector investment and public needs?* Key attributes of an effective regulatory framework include minimum employment conditions, penalties for damaging environmental impacts and safeguarding valuable wildlife and landscape features. In addition the following are likely to be key components of effective regulation:
 - Zoning land use
 - Approval of management plan required before activities are carried out
 - Mandatory environmental assessment of plans or operations
 - Safeguarding customary rights
- *Is there a sufficiently strong lead forestry development agency – autonomous but integrated with other key government institutions?* Policy and regulatory functions need to be separated from forest management functions to ensure clarity of responsibility inside and outside the government body. The lead forestry agency needs to have sufficient capability and autonomy to act correctly within relevant legal and policy frameworks, and to act decisively without political interference. A decision-making board with balanced stakeholder representation is usually needed, as is the power to generate and retain revenue, and to hire and fire staff.
- *How can financial incentives be designed to deliver public policy objectives and avoid perverse outcomes?* Tax breaks are especially difficult to design for the public good. Payments linked to the production of public goods are more transparent and more effective when a balanced mix of outputs is sought. Forest fees, such as royalties, worldwide tend to undervalue environmental and social benefits. This should be taken into account as should the need to align royalties and rentals with market rates and to assure a level playing field for all stakeholders.
- *How can voluntary certification play a useful role?* – Certification can work for the public good where there is strong market demand, where it is supported by government, and where there is consensus on standards. In addition, where there are many small growers, mechanisms need to be in place to enable cost sharing and co-operative marketing.

- *How can the emergence of incentives for provision of environmental services be anticipated?* Incentives for watershed protection and carbon storage services linked to plantations may emerge in the next few years. They may secure some public goods but will have implications for the distribution of costs and benefits – if they are badly designed, the livelihoods of poor communities may be threatened through increased exclusion, lower incomes and a weaker asset base.

Objective setting

- *How can stakeholders make their arguments in a clear and fair way?* Recognise that other actors have different values, encourage transparency and confidence in presenting them, and negotiate practical objectives.
- *How can a clear definition of “the public interest” be negotiated?* Which goods and services provided by state plantations are threatened and who loses by changing management?
- *How can objectives be kept clear and simple?* Potential opponents are more likely to buy into change if the purpose is clear and they can see beneficial outcomes.

Selection of concession option

- *How to get the balance right between economic, social and environmental concerns?* Develop agreement amongst stakeholders on a set and balance of elements of sustainable development, in line with national societal priorities, by which to identify the appropriate model for concessions in state-owned plantations.
- *What information is strong, what information is lacking, to make an informed choice?* Analyse the existing information base and carry out research to examine the options that may deliver the right balance of benefits
- *How can an optimum balance of powers be achieved?* Aim to transfer all the rights that private sector actors need to achieve optimum sustainability objectives and to ensure government retains the rights necessary to achieve public policy objectives.
- *How can trade-offs be made and agreed?* Several aims may sit together but are likely to need reconciliation and compromise, e.g. attracting large-scale investment and encouraging small enterprise development; ensuring most efficient use of the resource and accommodating multiple social claims to benefit from it
- *How can high transaction costs be paid for or accommodated?* Recognise that the transaction costs involved in the process are inevitably high – e.g. in terms of the time required of officials in key ministries

Ensuring the concession deal is attractive and accessible to potential partners

- *How to make sure the resource is in good condition and free from fundamental conflict?* To be of interest to investors and/or communities, resource quality and potential will be a critical determinant, as will the existence of challenges to land use for plantations
- *How to ensure transparency of process?* Making a concession allocation process attractive to private sector investors, community groups, and government departments will require clear signals about who will do what and how they will be held accountable.
- *How to build in sufficient security over use rights to encourage investment?* Such security is likely to be a function of provisions in a concession agreement including duration, the right to assign, sublet and mortgage use rights, the support of the concession by broader enabling policy and support services derived.
- *How to contract over a long enough period for the security and planning horizons of contractors and tenants?* A guaranteed minimum tenure on entering the concession

agreement is crucial, with provision for early termination in the event of a material and un-remedied breach of conditions. A key issue is the concession partners' confidence in government's ability to deal with breaches of the concession's terms or the law.

- *Will contract transfers be allowable?* Making the concession assignable/transferable (in whole or in part) to another party makes use rights tradable. An assignable concession has a financial value best protected by practising sound management of the forest. Risks that use-rights may be assigned to another, perhaps non-target group to realise quick profit need to be mitigated by requiring government's prior approval of the transfer
- *How to package services, assets or use rights in a way that will attract potential partners?* This is best shaped through dialogue between the actors.
- *How to address unfavourable investment climates?* E.g. stemming from high taxation, remoteness to markets, expensive finance, over-weighty bureaucracy and adverse labour relations/costs

Capability and organisation of potential partners

- *What is the capacity of private enterprises to be partners in concessions?* Make an assessment of the capacity of private enterprises to engage profitably with the transaction process and to meet their obligations as well as make full use of any rights that are transferred. Make assessment of the pros and cons of alliances and consortia of different private enterprises and different scales of enterprise – large and small – as partners in concessions.
- *How to promote continuous improvement of management systems?* Encourage enterprises to develop, up-grade and continuously improve their systems for: information generation and management; human resource development; participation; planning and management; finance management; and monitoring
- *How to support preparedness in community organisations?* Community organisations often need support in addressing some of the following challenges:
 - ** Generating trust among the actors, and confidence that others will comply with agreements made
 - ** Building on existing forms of community organisation rather than artificially constructed or administratively convenient units
 - ** Avoiding fragmentation with a large number of owners not bound by an umbrella organisation or association
 - ** Ensuring complementarity of plantation and social units - collective action for resource management is more likely to occur when the boundaries of the resource and the boundaries of the social unit managing the resource coincide
 - ** Ensuring adequate financing of community management activities
 - ** Generating sufficient knowledge and expertise about plantation management
 - ** Overcoming conflict within and between community groups
 - ** Managing the long timeframes involved in tree-growing and sometimes the disincentives of seasonality clashes between farming and forestry activities
- *How to encourage private enterprise partnerships with local communities without compromising competitive concession allocation?* Public policy objectives may prioritise the involvement of communities local to the concession area being partners, not mere employees and beneficiaries, in concession management. The way in which these communities and potentially numerous prospective private sector partners should interact prior to concession allocation needs to be planned for in order to maintain the advantages of a competitive process.

Organisation of concession allocation

- ❑ *How to generate and ensure commitment to principles for optimal deals?* Whether concessions are planned to private enterprises or community organisations, or to partnerships between both, commitment to some principles of good deal-making will help produce an effective and equitable result.
- ❑ *How to weigh up the increased risks for private enterprises in requiring them to meet public policy objectives?* A competitive bidding process does not fully proscribe how investors should manage public policy issues, rather it invites them to use their initiative in responding to them. But it is important not to overburden the transaction with so many public policy objectives that it becomes unattractive to investors. Objectives such as revitalising the plantation resource, investing in processing, and maximising local ownership and employment may all present significant risks to the private sector and will have to be carefully weighed up.
- ❑ *How to design criteria and tender systems for optimised objectives?* The tender systems needs to be designed to enable selection of the bidder whose bid best reflects multiple objectives. Qualitative criteria such as commitments to future investment and opportunities for local participation and economic empowerment need to be combined with quantitative criteria such as the price consideration.
- ❑ *How to get the information to all potential partners?* It is vital that clear information about the resource and the proposed transaction process is developed and presented in ways which the target groups can access and digest.
- ❑ *How to manage competitive bidding?* In the case of concessions to private enterprises, an open market bidding-based approach to the transaction is crucial. Such auctions can allocate forest use rights to the producer most capable of addressing the range of specified criteria. Where local community groups are to be partners in the concession, the way in which they relate to potentially numerous private sector bidders needs to be prescribed in advance.
- ❑ *How to compare bids and evaluate them against agreed criteria?* Potential investors are invited to compete against each other in response to the agreed criteria by submitting proposals, which might include a business plan and an offer price. These are then compared and evaluated against the agreed objectives to identify a preferred investor.

ANNEX 4. PEOPLE MET

□

Government

- David K. Mbugua – Acting Chief Conservator of Forests, Forest Department
- Ruben Kikonyo [sp?] – Deputy Chief Conservator of Forests, Forest Department
- Anthony M. Maina – Senior Conservator of Forests (Drylands), Forest Department [mainaam2000@yahoo.com]
- Eric Nahama - Conservator of Forests (Partnerships), Forest Department
- James Muchemi Gitonga – Conservator of Forests (Plantations), Forest Department [ccf@wananchi.com]
- Stanley K. Sinei - Conservator of Forests (Economics Unit), Forest Department
- Jennifer Ngigi – Conservator of Forests (Extension), Forest Department
- Peter N. Mugo – Forester Runyenjes, Forest Department
- M.O. Abuto – District Forest Officer, Meru Central, Forest Department
- Louka Gichuru – Meru Forest Station
- [??] Amburo [sp?] – DFO, Nyeri
- Benjamin Kinyili – Assistant District Forestry Officer, Nyeri
- Paul M. Wawera – Kiandongoro Forest Station, Nyeri
- Douglas Odete [sp?] – Senior Deputy Secretary, Ministry of Environment and Natural Resources

Members of parliament

- Hon. Noah Wakesa MP – Assistant Minister Livestock, former Chair of Parliamentary Committee on Agriculture and Environment
- Hon. Moses M. Wetang'ula MP – Assistant Minister Foreign Affairs, Advocate of the High Court [mwetangula@hotmail.com]
- [MP for Lugari – get full name from Walubengo]

Private sector

- Chetan Shah – Secretary, Timber Industries Employers Association [fke@arcc.or.ke]
- Alpesh Patel – Eldema Kenya Ltd (Timber manufacturers and merchants) and Chairman, Timber Industries Employers Association [eldema@insightkenya.com]
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- Samuel G.M. Gitonga – Director, Gachagua Saw Mill Ltd
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- ❑ Nain Shah – Managing Director, Mount Kenya Saw Mills Ltd
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- ❑ Enock Kanyanya – Kenya Forests Working Group
- ❑ Wilberforce Okeka – Kakamega Environmental Education Programme, Kakamega
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- Samuel Carsan - World Agroforestry Centre
- Jonathan Muriuki - World Agroforestry Centre
- Frank Place - World Agroforestry Centre
- Christine Holding-Anyonge – Forestry Officer (Extension) FAO, and visiting researcher at World Agroforestry Centre
- Mercy Gichora – Regional Centre Director, Kenya Forestry Research Institute (KEFRI), Maseno
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