



Final Report

Addressing smallholder needs in planted forests in Mozambique

**TA Project:
Improving the business climate for planted forests**



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Addressing smallholder support needs in planted forest development

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Content

Acronyms and abbreviations.....	4
Executive Summary.....	5
1 Introduction	7
1.1 Background.....	7
1.2 Methodology	7
1.3 Definitions	9
2 Smallholders' role in the commercial forest sector.....	10
2.1 Why smallholders matter	10
2.2 The development of a commercial forest sector.....	11
2.3 The importance of smallholders in forestry worldwide.....	11
3 Experience with smallholders from other countries	12
3.1 CCP examples	12
3.2 Examples of successful forestry outgrower models.....	17
3.3 Other tree growing support models outside of CCPs.....	20
3.4 Relevance to Mozambique.....	21
4 The current situation with smallholders in Mozambique.....	23
4.1 Land acquisition and the DUAT process.....	23
4.2 CCPs in agriculture in Mozambique	24
4.3 Smallholder participation in forestry	25
4.4 The impact of CCPs in Mozambique.....	27
4.5 Perceptions from the interviews.....	28
5 Recommendations and way forward.....	31
5.1 General forest sector development	31
5.2 Land.....	31
5.3 Active participation of decentralized Government.....	32
5.4 Employment	32
5.5 Outgrowers/SME support	33
6 References.....	34
Annex	37
Annex 1: Questionnaires.....	38

Acronyms and abbreviations

ADRA	Agência Adventista de Desenvolvimento e Recursos Assistenciais
CEPAGRI	Centro de Promoção da Agricultura (Agriculture Promotion Centre)
CCP	Company Community Partnerships
COGEP	Conselho Local de Gestão Participativa de Recursos Florestais e Faunísticos (participatory management councils)
CPI	Centro de Promoção de Investimentos (Investment Promotion Centre)
CSR	Corporate Social Responsibility
DNTF	Direcção Nacional de Terras e Florestas (Directorate of land and forests)
DUAT	Direito de Uso e Aproveitamento de Terra (Acquired land use right)
FdN	Florestas do Niassa
GoM	Government of Mozambique
GR	Green Resources
ITC	Iniciativa Terras Comunitárias (Community Land Initiative)
KTVC	Kilombero Teak Valley Company (Tanzania)
MICOA	Ministério para a Coordenação da Acção Ambiental (Ministry for Coordination of Environmental Affairs)
NCT	Natal Forestry Co-operative Limited (South Africa)
NGO	Non-Governmental Organizations
NFC	New Forest Company
SPGS	Sawlog Production Grant Scheme (Uganda)
RSA	Republic of South Africa
UPM	Forestry company based in Niassa called Florestas do Planalto
USAID	United States Agency for International Development
WB	World Bank

Executive Summary

General

This study focuses on looking at how to support and encourage smallholders and communities to have a greater involvement in the emerging plantation forest sector in Mozambique. The sector has the potential to make a significant difference to these people's livelihoods, which is borne out by the experience in countries with mature forest plantation sectors such as Brazil and South Africa.

Approach

The study involved reviewing information available on smallholder support in forestry worldwide, with a particular focus on those with relevance to Mozambique's situation. This was supplemented by interviews and questionnaires conducted with a good sample of communities surrounding forest developments, local government officials and the main current forestry investors in the sector.

Why smallholders are important

In Mozambique, smallholders are crucial to the land negotiation (DUAT) process and thus must be engaged by potential investors in the sector. Investors also see smallholder and community support as a risk management strategy: the surrounding communities provide labour and also can help reduce the risk of fire and theft as the crops mature. In many countries, small and medium-sized farmers can also become major suppliers of raw material for their wood processing industries too. This can be through formal outgrower schemes or as individual tree growers.

Investing in communities through CCPs

The requirement to negotiate with communities for land access has led to confusion over what is normally seen as a straight-forward business partnership - especially the provision of jobs for local people - and investing in what are normally Corporate Social Responsibility (CSR) projects such as schools, health centers, water wells etc. The lack of government support for such basic services in many rural areas has led the communities to expect the investors to provide them in return for land access. Investors are thus asking for the government to clarify their responsibilities so they can budget more accurately for their social commitments.

Negotiations between companies and communities

The land access (DUAT) negotiations are often very time consuming and have unclear outcomes. Agreements are often not clearly understood, leading to problems later on. There is an urgent need to streamline the process and have local government present as independent mediators. The agreements on both sides must be clear and properly documented. In return for the land access, investors must deliver with the jobs and their CSR 'promises'.

Better communication is needed between all parties – communities, local authorities and investors – to keep everyone informed of progress and other issues as they arise.

Experience with smallholders from outside Mozambique

The report analyses the range of smallholder support in countries with mature plantation forest sectors – notably in South America, South Africa and East Africa. Employment is the main CCP but many companies go further in supporting outgrowers and also in developing Small Medium Enterprises (SMEs) to provide various services to the companies. All are involved in CSR projects in the local communities, with health, education and environmental initiatives.

Various outgrower models were studied and their relevance to Mozambique's situation discussed. In almost all situations, the forest industries are mature - i.e. with clear added value chains for processing the trees and the link between growing trees and making money is clear. In Mozambique, there is no developed forest industry for plantation-grown wood as yet and furthermore, the lack of a tree planting 'culture' in Mozambique means that the development of small growers will take time. Outgrowers will also need substantial support in terms of both finance and technical assistance. Good examples from South Africa and Uganda indicate the way forward for Mozambique, with the support likely to come from a combination of private sector and public funds.

Mozambique's experience

There are few examples of smallholder support in forestry in Mozambique, which is understandable given the sector's early stage of development. A number of companies, however, have expressed interest in schemes to support outgrowers: guidance should be offered here, based on the experiences from other countries. There are examples from agriculture in Mozambique where outgrowers have been supported in various ways and with some success. Forestry is a very different investment, however, given its long timeframe and the vast majority of the costs being incurred early on. Hence the need for financial support mentioned earlier.

With regard to potential tree growers outside of formal CCPs in Mozambique, such entrepreneurs will also need assistance with obtaining DUATs. They will also need substantial support both financially and technically and here Uganda's Sawlog Production Grant Scheme (SPGS) shows how it can be done.

Training and SMEs

A combination of the lack of skills and low labour productivity in the forest sector in Mozambique has led investors to bring in external people and also to mechanize operations where possible. This has led to concerns from communities over the lack of local jobs being created. Vocational training initiatives already underway should be supported by both the investors and government. The development of SME service providers - as has been started by one forestry company in Mozambique - should also be encouraged.

1 Introduction

1.1 Background

1. The background of this study is the Government of Mozambique's stated vision to have 1 million hectares of land under tree plantations by 2030, to form the basis for a competitive, sustainable commercial forest sector. Within this vision, smallholder and community participation in the sector is seen as crucial, in order to contribute to rural development.

2. More specifically, this report is part of a technical assistance (TA) project of the World Bank (WB) to support the Government of Mozambique in attracting private sector investments to the plantation forest sector. It analyses the emerging commercial forestry sector in Mozambique and in particular, seeks to identify what support is required to encourage smallholders and communities to have greater involvement in the sector. Learning from other countries is an important part of the work too, since a vibrant commercial forest sector can be a powerful driver of rural development by providing jobs, funding social projects and also creating opportunities for Small-Medium Enterprises (SMEs).

3. The specific tasks for the mission were as follows:

- Review the current situation with smallholders in the sector:
 - To determine to what extent smallholders are currently involved in forestry and agriculture (including Community-Company Partnerships - CCPs);
 - To see whether there are synergies between smallholders' agriculture and forestry activities.
- Reviewing experiences with smallholders in other countries:
 - Analyse smallholder participation in forest sectors (including CCPs);
 - Evaluate the lessons for the development of Mozambique's commercial forest sector.

Based on the above work, the overall outcome of the task is:

- Recommendations for greater smallholder support in the sector.

1.2 Methodology

4. The study involved a mix of desk-work, questionnaires and live interviews with a sample of the key stakeholders. A literature review of national and international examples of smallholder support in forestry was conducted in order to learn lessons from a range of initiatives. Surveys and interviews were then conducted with the main stakeholders in Mozambique, including:

- Companies – to assess their policies, activities and budget regarding Corporate Social Responsibility (CSR) and CCPs;
- Provincial Governments – to assess their knowledge and perceptions of CCPs and identify possible information gaps;
- Communities - to understand their perceptions and expectations in regards to forest plantations and their experiences with current and previous agreements or partnerships with companies.

5. The interviews with companies were conducted through standard written questionnaires, while representatives from the Provincial Governments and from 20 communities were interviewed in the field. The questionnaire can be found in Annex 1. During the fieldwork, the questionnaires were conducted not only in large forests investments, but also in small/medium scale projects with plantations developments in Niassa, Zambézia and Manica provinces. The companies interviewed were Portucel, Moflor, Florestas do Niassa (FdN) and Green Resources (GR) (Figure 1).

Figure 1: Location of interviews conducted.



1.3 Definitions

6. In carrying out this study, it quickly became evident that there was confusion between the various terms used to describe the stakeholders (farmers, smallholders, communities, outgrowers etc.). The terms to describe various agreement and partnerships (e.g. CCPs and CSR) are also not used consistently, causing further confusion. Below are definitions of the key terms to make them clear at least in this report.

7. For the purpose of this study, **companies** include small-scale, medium and large-scale profit making private enterprises in the planted forest sector. **Communities** include farmers and individual local 'actors' as well as community-level units of social organization such as farmers' groups, product user groups and cooperatives that are located within the direct vicinity of company plantations. **Partnerships** refer to the range of relationships and agreements that are actively entered into, upon the expectation of mutual benefit, by two or more parties. This report uses the term partnership to describe a broad spectrum of deals, contracts and informal arrangements between companies and communities, with third party entities playing an important supportive role.

8. **Community-company partnerships (CCPs)** can thus cover the wide range of formal and informal partnerships that can exist between farmers, communities and the forestry companies.

9. **Corporate Social Responsibility (CSR)** is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups. CSR can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change. The most important point is that whilst CSR can involve a wide range of initiatives, it is done on a voluntary basis by companies¹.

10. It is common in Mozambique to refer to investments which normally fall under the CSR banner (e.g. building schools, clinics, bridges etc.), which are actually CCP agreements as result of the DUAT negotiation process. Based on these definitions, the different types of partnerships and/or agreements referred to in this report – namely, DUATs, CSR, outgrowers and SMEs – all fall under the umbrella of CCPs (Fig. 2).

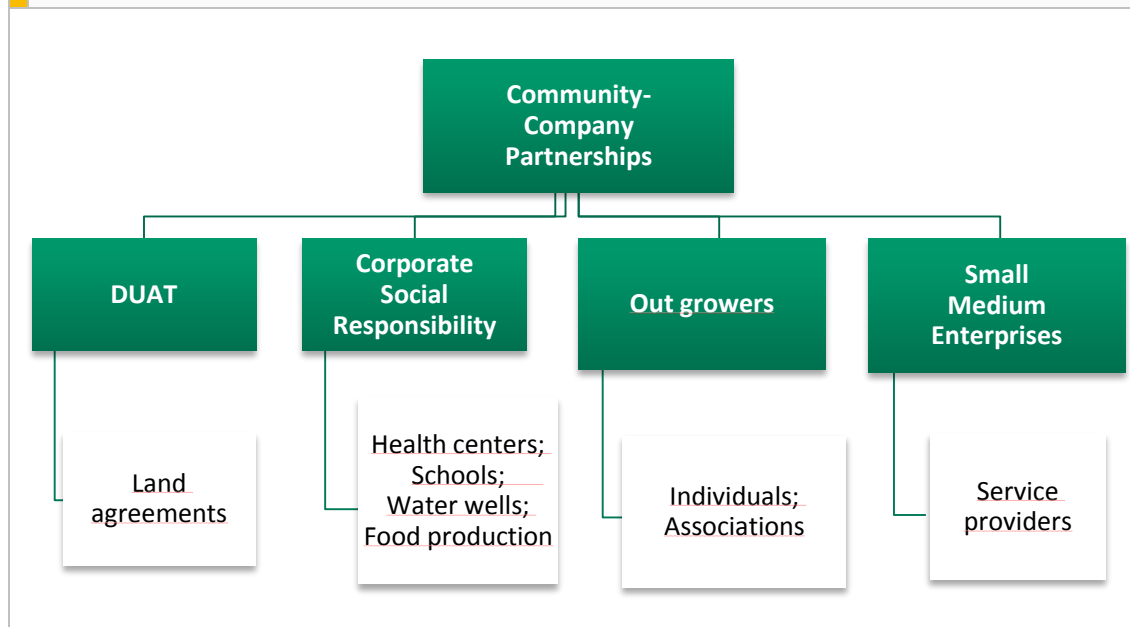
11. The best definition for **outgrowers** was found in FAO publication:

“We define an outgrower scheme as a contractual partnership between growers or landholders and a company for the production of commercial forest products. Outgrower schemes or partnerships vary considerably in the extent to which inputs, costs, risks and benefits are shared between growers/landholders and companies. Partnerships may be short or long-term, and may offer growers only financial benefits or a wider range of benefits. Also, growers may act individually or as a group in partnership with a company, and use private or communal land. Outgrower schemes are usually prescribed in formal contracts” (FAO, 2001).

¹ CSR has been much debated in Mozambique: following various meeting and workshops, GoM published a Policy paper promoting CSR in the extractives (minerals) sector. Although a clear framework is not there, the CPI (investment promotion center) recommends companies allocating 5-10% of their investments costs to CSR activities in all sectors. It is unclear whether this is voluntary or an obligation.

12. **Small and medium enterprises (SMEs)** are businesses whose personnel and turnover fall below certain limits. The criteria used for defining SMEs differs between countries: in Mozambique, for example, small are defined as enterprises that employ a maximum of 10 people and medium 11 to 50 (Instituto Nacional de Estatística, 2012 apud Conselho de Ministros, 2007).

Figure 2: Community Company Partnerships (CCPs)



2 Smallholders' role in the commercial forest sector

2.1 Why smallholders matter

13. Two-thirds of sub-Saharan Africa's population resides in rural areas, the majority of which can be considered as smallholder farmers. The term 'smallholder' refers to their limited resource endowments relative to other farmers in the sector (Dixon *et al* 2004). According to IFPRI (2007), smallholder farmers are among the most disadvantaged and vulnerable people in the developing world: half of the world's undernourished people, three-quarters of Africa's malnourished children, and the majority of people living in absolute poverty can be found on small farms. Most smallholders cultivate food for subsistence, and do not have the expertise and cash flow to invest in their land.

14. Despite these constraints, smallholders can – and in many countries do - play an important role in supplying food (and wood) products beyond subsistence under various business models, thereby bringing economic transformation in rural areas. In Mozambique some of these agricultural models are working (e.g. with tobacco and cotton seeds) but they have very little involvement in the forest sector.

15. In Mozambique, due to land legislation, the importance of smallholders for all development is paramount. Land in Mozambique is owned by the population, which implies that forest companies cannot buy land. The only way to acquire land is to obtain a land access right (DUAT -

Portuguese acronym for: Acquired land use right - Direito de Uso e Aproveitamento de Terra), which is a negotiation process between local smallholder rural communities (land owners) and the forest company. Thus without the involvement (and consent) of smallholders, forest companies cannot acquire land. Usually there is a kind of “compensation” negotiated which consists of job opportunities, social projects (e.g. school, health, water etc.), and a payment for losses of tree crops. These ‘social costs’ for investors can be formal CCPs or seen as CSR initiatives: either way, they can be difficult to plan and budget for.

2.2 The development of a commercial forest sector

16. Good forward planning and substantial investment are essential for a profitable and sustainable, plantation-based forest industry to develop. There needs to be a critical area of plantations developed in order to attract investment into down-stream processing (known as the added value chain) and without this, the industry will be unsustainable. In the case of a pulp-mill, this maybe >200,000 hectares, whereas for a modern, efficient sawmill 5-10,000 ha may suffice. In addition, because plantation-grown wood is generally low value and bulky, the trees need to be grown reasonably close to markets or transport costs will consume any profit. Thus the plantations need to be concentrated within a region (or cluster) that will eventually supply specific market(s) to add value to the raw material.

17. This market-related perspective is important in forestry worldwide but is particularly relevant for Mozambique at this early stage in the commercial forest sector's development. Merely supporting tree planting by smallholders will not lead to a sustainable forest industry developing. If such support to smallholders, however, is linked to a wider plan for developing the sector, then it stands more of a chance in succeeding. This means linking in small and medium-sized tree growers to the future markets and these markets are invariably developed by the larger forestry investors, who will always be looking to add value to their raw material, rather than just sell logs.

18. The harvesting of most of the natural forests in the region are an example of an unsustainable forest-based industry. Whilst many SMEs have emerged to harvest and transport the trees, it is ultimately unsustainable since once the trees of commercial value have been taken, the industry will all but disappear. The commercial forestry industry envisaged in Mozambique must be sustainable and to be sustainable it must also be profitable for the tree growers, both large and small.

2.3 The importance of smallholders in forestry worldwide

19. As larger investors start establishing commercial plantations in a region, smaller tree growers will often emerge, although this is more likely once actual market opportunities appear. It is common for the larger companies to actively support local farmers and entrepreneurs to plant trees – usually under formal ‘outgrower’ contract schemes, to boost their timber supply.

20. Companies also often support the development of local SMEs to provide various services, such as silvicultural and harvesting work and transport. The reasons for encouraging smallholders may be commercial (i.e. providing labour and other services or growing wood to supplement

the companies' own supply) or as a risk mitigation measure (e.g. to foster good relations with local communities). As noted earlier, in the case of Mozambique, access to land is closely connected to having good relations with communities. Where this relationship between companies and smallholders is well managed, it can thus be a clear win:win situation.

21. Smallholders and communities, however, present a particular challenge: they lack the required capital inputs, negotiation power and technical expertise. This is true for many countries, including Mozambique. Finance is often not available to these small farmers and community groups due to the risk factor: finance institutions will seldom support such a long-term venture as forestry. Smallholders also lack the finance and capacity to comply with international standards – for example, the Forest Stewardship Council (FSC) – and thus risk being excluded from supply chains that discriminate in favor of sustainably produced commodities.

22. These small growers also require substantial technical support if they are to make a profit from their tree growing investments. Modern silvicultural techniques (so-called 'best practices' developed by the industry) need to be applied for their trees to achieve their growth potential and also to ensure that they reach the quality standards required by the markets. Such technical support often has to be supplied by the larger investors, as the State's forestry institutions may not be resourced sufficiently to undertake this role.

23. Clearly if smallholders and community groups are to play a role in Mozambique's emerging commercial forest sector, they need help. In many countries, such assistance comes from the Government, international projects or from the larger companies in the sector – or a mix of both. In some countries, financial support for tree planting is provided in the form of Government grants although in Africa, it is more common for the larger companies to support smallholders through a wide range of initiatives, which can be generally grouped under the term Company-Community Partnerships (CCPs). These CCPs range from informal arrangements (often under a company's CSR banner), outgrower schemes and other formal contracts.

3 Experience with smallholders from other countries

3.1 CCP examples

24. Increasingly internationally financed companies consider CSR investments as part of their overall business plan. An analysis of a number of large companies operating in the commercial forest sector in Africa shows the wide range of initiatives undertaken, although, as noted earlier, they consist of mix of CSRs and CCPs (Table 1). Usually, local employment and the implementation of social projects (e.g. schools, wells, health centers and access roads) are the common initiatives established by companies to show their commitment to communities.

25. The following sections describe in further detail the main categories of the most common CCP initiatives. They have been selected for their potential relevance to Mozambique and as a guide to the greater involvement of smallholders and communities in the country's emerging commercial forest sector.

Employment

26. The labour experience in the Republic of South Africa's (RSA) forestry sector is of particular relevance to Mozambique's situation. In South Africa, Sappi provides direct employment to 5,486 people and in partnership with another large company has invested USD 280,000 to establish a community-training center. To date 600 previously unemployed community members were trained at this center. Training activities are centered on specific construction and building-related skills such as operating power tools, scaffolding construction, plumbing, specialized welding courses and basic carpentry. So far, 354 of the trainees have been employed at Sappi's mill after completion of their training program.

Table 1: Examples of CCP in Africa (2015)

Company	Country	Planted area (ha)	Type of CCP	Year	CCP budget (USD)	CCP per ha planted (USD)	Number of direct employees	Direct employees per ha planted
New Forest Company ^a	Tanzania Uganda Rwanda Mozambique	27,805 (planted by July 2014)	Schools Health centres Water wells Outgrowers	2014	657,735 (company) 438,000 (donors)	39.5	2,421	0.087
Green Resources ^b	Tanzania Uganda Mozambique	45,000	Schools Water wells Outgrowers	2014	n.a.	n.a.	3,500	0.078
Kilombero Valley Teak Company ^c	Tanzania	28,132	Social Fund Outgrowers	Per year	25,000	0.9	300	0.011
Portucel ^d	Mozambique	58,000 (planted by December (2014) ²)	Agriculture support Housing (improving) Health	2015-2022	40 million	86.2	7,500 (expectation)	0.129
Mondi ^e	South Africa	307,000	Environment, Education, Health, Sport and recreation, Out-grower	2010-2014	61 million	39.7	>1,900	0.006
Sappi ^f	South Africa	357,000	Community Trust, Outgrowers, Environment & conservation	2014	23 million	65.0	5,486	0.015

Source: a) NFC Sustainability Report FY14, b) <http://www.greenresources.no>, c) <http://kvtc-tz.com>, d) Portucel Annual Report 2014, e) <http://www.mondigroup.com>, f) Sappi Southern Africa Sustainability Report FY14

² According to Portucel's Annual Report available at: http://en.portuceloporcel.com/var/ezdemo_site/storage/original/application/923a0c1e207ad95c30d294a57c3c0dcf.pdf. Personal communication with Portucel in October 2015 however suggests that the planted area is much smaller.

27. Also in South Africa, Mondi employs more than 1,900 people. In Tanzania, Uganda and Mozambique, Green Resources has created 3,500 job opportunities. The New Forest Company (NFC) accounts for 2,421 employees in Tanzania, Uganda, Rwanda and (until recently) in Mozambique. Portucel investment in Mozambique has generated 7,500 new jobs in the planted forest sector. It should be noted that it is not always clear if the above published figures consider only direct employment or also include indirect employment like sub-contracting.

28. In addition to providing training and promoting skill development for direct employees, numerous contractors and suppliers also benefit from company operations. For instance, by outsourcing several services, Mondi accounts for the creation of approximately 2,600 indirect jobs, while Sappi provides more than 1,700 additional indirect job opportunities.

29. The provision of rural jobs is usually emphasized as one of the major benefits of a country having a successful, commercial forestry sector. Whilst mechanization is increasing in forestry even in Africa (to reduce unit costs and increase productivity), large scale plantation development in Mozambique will still have a huge impact on rural jobs. These jobs can be through direct employment by companies or indirect – through the development of SMEs as support services to the industry. Every forestry company operating in Mozambique thus looks to the surrounding communities to provide at least the bulk of its labor force. Employment thus represents a very important CCP.

Education and health projects

30. Community health is a common area for forestry companies to support. In RSA, Sappi's focus on the health and welfare of local communities helps lower internal health and welfare costs in communities, leading to increased productivity. There are employee well-being programs in place at all Sappi's operating units. Health programs include health monitoring such as HIV/AIDS testing, and initiatives focused on issues such as diabetes, heart health and sexually transmitted diseases. Support is extended into nearby communities by providing additional financial support for HIV/AIDS prevention, treatment centers, and hospice organizations.

31. Also in RSA, Mondi collaborate with industry-specific initiatives that improve the living conditions and livelihood opportunities for the rural poor, including forest sector workers and their families in forestry areas. A project was launched to provide support for children affected by HIV/AIDS and to promote access to social and economic support including: education, healthcare, food banks, protection from abuse, trauma counselling and skills development/training. Mondi has also set up a mobile clinic in partnership with a NGO and the provincial government. The purpose of the project is to take HIV/AIDS programs and primary health care to contractors and communities living in close proximity to Mondi's forestry operations. Following the success of this pilot project, the model was extended to other remote rural areas and contributed to the deployment of additional mobile clinics.

32. In East Africa, NFC's community development strategy focuses on primary health and education. In Tanzania GR have recently funded a primary and a secondary school in addition to a village administrative office and community hall, costing over USD 32,000. The ownership of these facilities was recently handed over to the Government of Tanzania, as part of the long-term community development plan.

Road maintenance, sunflower projects for villages and wards, and agreements with credit cooperatives to provide loans for employees are some of the other CSR initiatives of GR.

Community organization, funds and trusts

33. A Social Fund to support the communities that have granted land to Kilombero Valley Teak Company (KVTC) in Tanzania was established in 2002, and it contributes to a specific community project in each of the 14 villages associated with KVTC. These funds have helped to build important infrastructure such as schools and roads, improve medical care and better serve the needs of these communities. KVTC is committed to continuing and expanding its social investments in the future as their business grows and succeeds.

34. A Sappi initiative supported the development of a community-public-private-partnership through a capital grant of USD 69,000 and significant on-going capacity building within a community. The capital grant was used by the community to leverage a 68% shareholding in a lodge development company. Since opening in August 2004, the lodge has enjoyed exceptional occupancy rates, allowing the creation of 45 permanent jobs in the community while providing yearly dividends to the community. The lodge has been recognized as an exceptional rural development and conservation partnership. The adjoining campsite, which has created an additional eight permanent jobs, was upgraded after Sappi's sponsorship increased to nearly USD 72,500.

Environmental initiatives

35. Green Resources in Uganda are piloting the production of improved charcoal using technologies from sustainable sources. Charcoal production is a major driver of deforestation in many African countries, along with the expansion of 'slash and burn' agriculture.

36. Sappi engages in a number of conservation and environmental programs and partnerships with communities such as preservation of endangered birds, turtles and cheetahs. Also, there is tree planting initiative where Sappi plants indigenous trees in and around its property, local schools, libraries and municipalities throughout South Africa. Since 2008, more than 18,000 indigenous trees have been planted through this program.

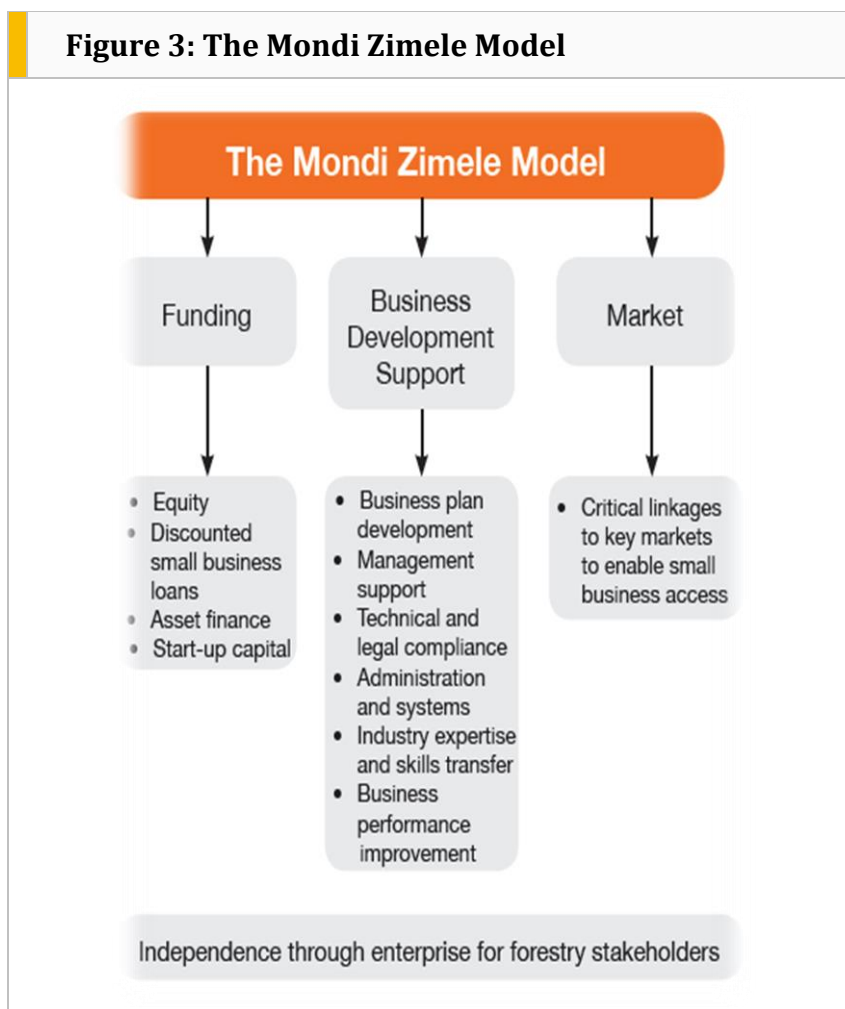
37. Many forestry companies promote tree planting by adjacent communities and schools by giving tree seedlings away: such initiatives mean well but often fail to produce good plantations. Sound technical advice (via extension officers) and other inputs are usually prerequisites for success.

SME development

38. Mondi is actively developing local contractors, who are expected to take over forestry operations in substantial areas of plantations which are being gradually handed back to communities as part of the settlement for RSA land claims. As part of the small business development division of Mondi, the company Mondi Zimele was established in 2007 (Fig. 3). The model has three main objectives:

- Develop sustainable small businesses in Mondi's forestry value chain;
- Encourage job creation and local economic development through supporting small businesses in surrounding communities and
- Facilitate the increased availability of sustainable fiber for Mondi mills from private growers with an emphasis on new community forestry businesses.

Figure 3: The Mondi Zimele Model



Source: Mondi Zimele Leaflet

39. In addition to making funds available, Mondi Zimele also offers business development support and market linkages. Structured processes and tools are used to assist entrepreneurs in identifying key success factors and establishing appropriate controls in their businesses. In 2011, Mondi Zimele expanded its focus to integrate support for employment by creating small businesses in communities around Mondi's areas of operation. This offering now also includes forestry development support to emerging forestry landowners and small growers.

40. In 2012, Mondi Zimele further intensified its focus on job creation and small business development through a partnership with the Development Bank of South Africa which resulted in the establishment of the USD 10.7 million Mondi Zimele Jobs Fund. Mondi Zimele has assisted small business owners to start up and develop their own businesses in various areas, including:

small-scale timber growers, silviculture, nurseries, construction, mushroom cultivation and gardening.

41. NCT feels that income generation projects are very important for community empowerment as well as for the overall success of its other community development projects. Projects supported by NCT focus on:

- Literacy and education (with particular focus on early childhood development);
- Welfare of the most vulnerable especially orphans and HIV infected children;
- Special needs equipment for the physically - and mentally - challenged;
- Food security with the establishment of vegetable gardens;
- Small-business development;
- Basic infrastructure at schools and home run crèches.

42. Sappi in partnership with one community established a Nursery Project in South Africa in 2010. The project is registered as a cooperative and employs 16 community members. The aim of the project is to empower the community through sustainable farming, and to provide vulnerable community members with food. Sappi donated start-up funding from capital raised from a mushroom harvesting project, and has since brought other donors on board. The Nursery Project comprises two greenhouses where they grow commercial seedlings, which are sold to the forestry industry, and vegetables, which are sold to locals and used in local feeding schemes to support vulnerable members of the community.

3.2 Examples of successful forestry outgrower models

Introduction

43. Forests outgrower schemes describe one important type of partnership between the company and communities. Outgrower schemes are promoted by companies for a variety of reasons – for example, to encourage smallholders and communities to plant trees, to increase their effective wood supply (often where companies own land is limited) or to support SME development. This Section looks at various forest outgrower schemes around the world but particularly those from which valuable lessons can be learned for Mozambique.

44. As the definition of outgrowers quoted earlier (Section 1.3) makes clear, the type of partnership in outgrower schemes can differ enormously. Many company-community arrangements fail to achieve true 'partnership' status because of a lack of bargaining power on the part of smallholders and also due to the limited capacity of companies dealing with many individuals. Therefore, the crucial importance of establishing groups to create collective bargaining power is evident.

45. Under these partnerships, growers allocate land, workers, and their resources to the production and management of trees for a company, with the company providing a guaranteed market. In some cases outgrowers are free to sell the timber to any other company. It is important that the varying responsibilities of each partner are clearly defined within a contractual agreement. Simultaneously, forest outgrower schemes promote the expansion of forests whilst also contributing to regional development.

46. For SME producers, this type of scheme is an opportunity to provide a new alternate source of income (main or additional sources), often guaranteeing their sales through wood purchases and sale contracts with promoters of an outgrower scheme program. From the company's point of view, this model is attractive since in most cases the company does not have to buy or lease land, but instead focuses on supporting the outgrowers financially – for example, by providing initial establishment and maintenance costs, and also through providing sound technical advice. From a social point of view, forest outgrower schemes improve income diversity and encourage the permanent settlement of rural populations due to the creation of permanent jobs, thereby contributing to the local economy. Despite the apparent multiple benefits of outgrower schemes for growers and forestry companies, there is always the risk factor due to the long-term nature of the business, with inherent fluctuations in timber prices both at the local and international level. Additionally growers are frequently disadvantaged by their lack of detailed and accurate information on realistic returns.

47. In Mozambique, most examples of outgrower support come from agriculture with very few (at this early stage) from forestry. Hence in the following sections we look at the *modus operandi* of various models that have worked elsewhere and highlight key aspects for Mozambique.

Brazil

48. Suzano's outgrower model is a good example of what many of the larger Brazilian companies have been doing for many years. The scheme begins by the company making a technical visit to the property, where they explain to the farmer the premise of the program. Also, at this time they will conduct a technical evaluation, analyze required documents and discuss with the property owner the guidelines for environmental licensing. After signing the contract, the area is measured and technical assistance is provided. Seedlings, fertilizers and an upfront payment of around 500 USD/ha are also provided. The company is responsible for monitoring, consulting, ensuring the advanced purchase of 5m³/ha/year from the 2nd to 5th year (providing extra income of 85 USD/planted hectare/year), and guaranteeing the purchase of all the wood produced. The program has generated 2,500 direct and indirect jobs, which had a significant impact on the region's economy, thereby contributing to sustainable regional development.

Portugal

49. In Portugal due to the lack of raw materials, the strategy adopted by Portucel was to outsource tree planting with 400,000 farmers. Nearly 85% of these farmers have areas that cover less than three hectares, although areas can range from 0.5 to 1,000 ha, depending on the region within the country. The company also leases forestry lots. More than 100 SMEs were created in Portugal to provide forestry services. By definition, these smallholder farmers are not strictly outgrowers, as they are not formally contracted to the company. However, they are crucial to the company to supply raw material to their processing plants.

South Africa

50. RSA also has also developed some successful outgrower models – notably the big companies Mondi, Sappi and also the large growers' Cooperative – NCT. Sappi's outgrower scheme is called Project Grow and focuses mainly on supporting subsistence farmers who have access to 1 to 20 ha of land. Sappi has 20 qualified extension officers and 2 managers that assist the program in communities that make their land available to plant eucalypts. The company supplies farmers with seedlings and an interest-free loan that is sufficient to cover all establishment and maintenance costs until the trees are harvested – at around 7-8 years. Some monetary advances are made to cover maintenance costs during the rotation. In addition, a small amount of the anticipated harvest profit is annually paid to overcome cash flow constraints associated with the long growing cycle. The company is also responsible for offering technical advice and guarantee its sale at market price at harvesting time. Project Grow directly employs 1,750 people (80% being women). Sappi has also supported the development of more than 100 SMEs to support growers: these are carrying out silvicultural, harvesting and transport services for the growers on the scheme.

51. Mondi's outgrower scheme - known as Khulanathi ('grow with us') - was launched in 1989 and has attracted over 3,000 growers. In 2007, the company Khulanathi Forestry Ltd. Was formed and is co-owned and managed by former Mondi Khulanathi employees with Mondi Zimbabwe as its strategic partner. Khulanathi Forestry now purchases timber from many of the same small growers that Mondi assisted with loans, seedlings and extension services. The difference now is that these growers have planted and harvested several crop rotations and they no longer require the same levels of financial, logistical and technical support. The growers, whose woodlots range in size from one hectare to several hectares, use local contractors to harvest their trees and haul them to depots where they are weighed and stacked. A transport company was contracted to deliver the freshly harvested timber to Mondi's mills.

52. NCT Forestry Cooperative Ltd. (NCT) in RSA is a prime example of good outgrower support as well as illustrating the importance of small-medium tree growers gathering together to gain collective bargaining power. NCT currently has over 2,000 share-holding members representing 300,000 ha of commercial plantations. Their main market is pulpwood and NCT own three chipping plants, which export to the Far East. Importantly, they also support their members with up to date technical advice (via extension visits and periodic group meetings) and arrange certified contractors where necessary to harvest and transport the wood to market. Table 4 lists details of these and the other outgrower schemes described.

Table 4: Examples of company outgrower schemes worldwide

Company (Country)	Program name	Objective	Year started	Area planted (ha)	No. Growers	Average ha/grower
NCT (RSA) ^a	Cooperative support scheme	Cooperative members support scheme	1949	300,000	2,000	150
Portucel Soporcel (Portugal) ^b	Emporsil/Portucel; Florestal/Aliança Florestal	Additional wood supply for the pulp mills	1950	600,000	400,000	<3 (85% of the growers)
International Paper (Brazil) ^c	Fomento florestal	Income generation for farmers and additional wood supply for the pulp mills	1960 1980	16,500 9,600	40 0 40	41.3 (individuals) 240 (land lease)
Suzano (Brazil) ^d	Programa de Fomento da Suzano	Income generation for farmers and job creation	1973	58,000	420	138.1
Sappi (South Africa) ^f	Project Grow Lima	Company Social Responsibility program	1983 1989	21,860 2,996	3,800 4,000	5.8 0.7
Cenibra (Brazil) ^e	Fomento florestal	Income generation for farmers and job creation	1985	26,286	1,171	22.4
Mondi (RSA) ^h	Khulanati out-grower scheme; Mondi Zimeli	Business Venture	1988 2007	5,904	3,000 4,200	2

Source: a) Howard et al, (2005), b) Portucel Annual Report (2014), c) International Paper Presentation on Eucaliptocultura (2014), d) A Suzano e o Fomento da Bahai, e) Desmond and Race (2000), f) Sappi FAQs Project Grow (2015) and Cairns (2000), g) Cenibra Sustainability Report (2014), h) Mayers and Vermeulen (2002).

3.3 Other tree growing support models outside of CCPs

53. As discussed earlier, smallholders are often encouraged to plant under various CCP agreements with the larger investors. However, this will only generally take off once the markets are clear to the small growers – e.g. when the wood processing units are commissioned and companies are actively buying wood. Thus in order to stimulate the development of the sector, it is common (and can be argued is a necessary step) for many developing countries to offer incentives and subsidies to private growers of all sizes. This support to commercial tree planting has worked extremely well in a number of countries including Brazil and Chile and more recently in Uruguay. The schemes generally offer planting subsidies and fiscal incentives. In such cases, the objective is to stimulate investment in tree planting and to establish sufficient raw material to attract major wood-using industries to a country. In the three countries mentioned above, large scale, commercial forest industries are now well established, and contributing significantly to these countries' economies. As the forest industries have matured, there is less need for the subsidies, although the enabling environment for the sector – politically and physically - is still very important.

54. Uganda provides an interesting example too, where the Sawlog Production Grant Scheme (SPGS) has succeeded in supporting mostly small-medium entrepreneurs to invest in commercial tree planting – a business that was hitherto considered the responsibility of the State. Since 2004, over 50,000 ha of fast growing pines and eucalypts have been established to agreed standards by over 300 entrepreneurs contracted to SPGS. SPGS pays retrospective (and conditional) establishment grants of *ca.*USD350 per ha but crucially, also supports growers with substantial technical support. A core of larger companies are also investing and – as noted in the introduction to this report – these will be crucial to the development of sustainable wood-using industries once a critical area of plantations are established. These SME producers are thus confident that they will have good markets to sell their trees to at maturity. SPGS has noticed a spill-over effect with private growers planting even without the subsidy.

3.4 Relevance to Mozambique

55. The importance of smallholders to all well developed, commercial forest sectors is clear and it will be the same for Mozambique. However, by studying how the forest industries evolved in these countries, it is also clear that in the very early phases of the sector's development, such smallholders need substantial support – both financial and technical – to be attracted to plant trees. Many of the successful examples described are in countries where the commercial forest sectors are well developed and the added value chains are well established. In Mozambique, the sector is in its infancy, and many of the key components for supporting outgrowers need to be developed.

56. The various schemes described briefly in the previous section do, however, provide some useful indications for how Mozambique could design a smallholder support package. This support will have to come from the large companies or the Government – or a combination of both. Guidance on outgrower support could be useful for the companies, though some have experience from elsewhere. Alternatively, Government could set up a forestry incentive scheme independently to attract small medium investors to the sector: this might be attractive to funding through the international community, provided it has robust management structures in place.

57. The following sections summarize what are likely to be the key requirements for outgrower schemes in Mozambique to work.

Land

58. Smallholders will need assistance in securing land rights (DUATs) prior to planting trees. The importance of scale and logistics must also be borne in mind whereby potential growers must be grouped (clustered) and within a reasonable distance of the likely future market(s). Usually this will be in close proximity to a large investor who is planning to invest in timber processing.

Finance

59. Small growers will need finance – either in the form of conditional establishment grants (like SPGS in Uganda) or loans to be repaid to companies at harvest (like the large RSA and Brazilian schemes). In both cases, growers would have to have formal contracts.

Technical support

60. In all cases there will need to be substantial technical support for growers, who will virtually all be new to the business of commercially-orientated tree growing. Key areas will be as follows:

- Guiding through the process of planning and budgeting;
- Making clear the timescale factor and other inherent risks with forestry;
- Site:species:market matching;
- The supply of quality seedlings or clones;
- Good land preparation;
- Timely planting (with termiticides where necessary);
- Fertilizing (with eucalypts);
- Good weeding;
- Protection from fires and animals.

Such support could come from the companies own extension teams or from outside: either way, skills development/training needs to be a high priority. Practical extension support in the field will be crucial for success and thus the trained officers must be well facilitated and motivated. Best practice guidelines are also needed to support this too: good examples are available in South Africa (Sappi, 2010) and Uganda (Jacovelli et al, 2009) and could be adapted to suit Mozambique's specific conditions. Such guidelines need to be targeted at smaller growers, which means well illustrated and written in non-scientific language.

Information and communication

At all stages of engagement with potential outgrowers, it is important to provide clear information and to communicate well with communities. This is an ongoing process and thus a communication strategy should be drawn up at the start of the process, clearly identifying the key stakeholders. Once an outgrower scheme is up and running, the most appropriate means of promoting it should be used. Demonstration plots and 'role model' farmers are the most powerful means of spreading the word.

Growers' associations

As small grower numbers grow, they often see the need to have a collective voice, which is particularly valuable when it comes to negotiating timber prices at harvest time. Thus growers' associations often develop and small growers with little experience of commercial forestry may need assistance in forming such groups. Whilst it is early days for small growers in Mozambique to be considering this, the key focus at this stage should be on clustering growers to facilitate technical support and eventually for market access.

4 The current situation with smallholders in Mozambique

Introduction

61. Most smallholders in Mozambique cultivate food for subsistence, and do not have the expertise and cash flow to invest in their land. However, as observed in several successful projects in Mozambique, smallholders have the potential to play an important role in supplying food beyond subsistence under contractual farming business models (e.g. tobacco, cotton seeds), and bringing economic transformation in rural areas. This model however does not yet exist in Mozambique in the forestry sector. Some experiences on outgrower schemes have only recently started in the forestry sector of Mozambique, and thus they are too early to draw conclusions from. Experiences from other countries show, however, that partnerships between forestry companies and communities can link smallholders to improved technology, which in turn can connect them to markets, enhance food security and provide an additional source of income generation. In this chapter we highlight the current situation of forest companies and their partnerships with communities, existing models including in the agriculture sector and the results of the interviews conducted.

4.1 Land acquisition and the DUAT process

62. The access and security to land are limiting factors to invest in the forest planted sector in Mozambique. The land is owned by the state and in many cases is being occupied by the surrounded communities. The first negotiations between the forest companies and communities start with the DUAT acquisition (Acquired land use right - Direito de Uso e Aproveitamento de Terra) through the process of community consultation. After the attribution of the DUAT the forestry companies starts their activities and several matters begins to arise such as, existent machambas, fruit trees, sacred places, relocation of households and social responsibilities, which were not properly discussed during the consultation process. Lack of transparency and not following the proper legislation in the community consultations are one of the main causes of conflict, from the experiences taken from forestry projects in Mozambique. Local authorities contribution is to make sure consultations follow all the steps in the Land Law (Law number 19/97 from 1 October), which is clear in the procedures to follow. However this does not always happen and shortcuts are taken, which interrupt the procedures. For example some authorities are not present and/or only few community members participate in the consultation.

63. During this study a lot of complaints were raised around the DUAT process. In principle the procedure looks clear structured and well established. During the negotiation process between the land owner (community) and the interested investor (company):

- an annual fee is agreed (it is not fixed);
- compensation payment is agreed with farmers during the land demarcation process for the loss of physical assets like fruit trees (usually Caju trees) and
- community development projects are negotiated and agreed upon (like schools, water wells etc.).

64. In reality however the process differs from the planned process: it takes a lot of time, the land price cannot be seriously calculated and the agreements are quite often interpreted in different ways and not well documented. All this leads to high costs, frustration on all sides and incalculable financial and reputation risks for the company.

4.2 CCPs in agriculture in Mozambique

65. These successful cases can be especially found in the agriculture outgrowing schemes, where a company establishes a clear contractual partnership, creates value added industry and gives technical support to the individual farmers with a long term commitment. Successful examples can be seen in the cotton and tobacco industry in Mozambique. In the case of JFS SAN cotton industry, the company also supporting the farmers in other agriculture crop production rather than cotton for subsistence and sale through an extension service, an agriculture hub, savings and loans and post-harvest services.

66. Another successful example is the multiplication and sale of certified seeds in Nampula through an association (Associação de Camponeses Multiplicadores de Semente, or ACAMUSE). A strong statement in this study is that a business model that combines CSR and the payment of a lump sum per hectare planted, among other factors, is often beneficial for the company. This was tried in the forestry scheme with NFC in Niassa and in cases of lodges, where local communities benefited from direct payments. New Forest had started a community fund in 2010 benefiting around 83 people with positive experiences.

67. Green Resources implemented, in Niassa province, an agriculture outgrower scheme in partnership with Technoserve (2011/2012) for soybean production, involving around 200 families. Technoserve provided a technician improved seed, inoculants and has established demonstrations plots. The European Union has financed the agriculture outgrower scheme in Nampula province for mung beans, peanuts and soybean production including more than 1,000 families. Seed, technical support and permanent advice were given to growers. These initiatives look promising, though they have not been completely evaluated.

68. These examples show, that there are models which can create CCPs through payment per ha for land access rights, long term contracts and a stable and long term industry with added value and technical support. Agriculture support to safeguard food security seems to be an important issue in Mozambique which needs to be addressed.

69. The Partnership Development Program (*Proparcerias*) is an initiative of the former Ministry of State Administration through the Department of Promotion of Rural Development. The program aims at finding sustainable and inclusive partnership models that work to link local communities with investors. Although focused on agriculture and agricultural markets, the initiative has the potential to expand to the plantation forest sector. Under this program, outgrower schemes have been highlighted as having substantial potential to expand production. Some large forest investment companies state that they have established an outgrower scheme or consider outgrowers as an integral part of their production strategy.

70. The Mozambican CSR Network (www.pactum.co.mz) was created to promote sound initiatives and provide technical assistance to companies wishing to invest in the communities where they operate. Training and information on CSR is made available to members. Mozambique also adheres to the International Finance Corporation's (IFC) Community Investment Guidebook published in 2012 and its related guidelines.

4.3 Smallholder participation in forestry

Outgrower programs

71. With the sector in its infancy stages, Mozambique's forestry partnerships (which are mainly outgrower programmes) are understandably in their incipient stage. Green Resources has started an outgrower timber scheme, but this is too early to draw conclusions from. About 1,200 families per year will be supported in Niassa and Nampula. In Nampula, with funds from Finnfund and Norad, a forestry outgrower scheme was implemented, involving more than 500 families. The company provides seedlings and technical support and the growers must maintain the plots. So far approximately 1,000 ha were established.

72. NFC has also initiated an outgrower scheme, but has since pulled out of Mozambique. Only some 20 acres across 6 communities were established in that period. A private initiative in Sofala and Manica (Biomass project GDF SUEZ Energie Nederland) has supported 1300 farmers with 216 ha of biomass plots, though the current condition of these plantings is not known. In the agriculture sector however, there are successful examples of smallholder support and outgrower and ingrower as described in the next chapter.

73. Whilst it is too early to come up with conclusions for outgrowers support in forestry in Mozambique, there are good examples in neighboring countries (as described in the previous Chapter) from which Mozambique can learn and apply the lessons learnt.

SMEs

74. There are, however, good examples of smallholder participation in SME service providers in the forestry sector in Mozambique. A few years ago, the forestry industry in Mozambique was very active on the plateau of Lichinga in Niassa Province. The region consisted of five forestry companies: Chikweti Forests of Niassa, Floresta do Planalto SA (UPM), New Forests, Florestas de Niassa and Green Resources. As a consequence, service providers started to emerge and in 2011 there were five forestry contractors in the region (Niassa Petroleo, Mr Keath, Nomix, Smops, Kukamuchisia and Caxote Forestry). These contractors offered silvicultural services which were often labor intensive and ranged from land clearing, ridging, disking, ripping, planting, and fertilizer application to weed control (Mazorodze, 2011). However, with the closure of some companies and the resulting slow-down in forestry activities in the area, most contractors have left the province.

75. SMEs exist in the natural forest exploitation in Mozambique, providing services such as harvesting, sawmilling and charcoal burning. However most of them operate rather informally, with workers often paid below the minimum wage. They rarely comply with health and safety standards and the business 'model' is clearly not sustainable (B. Nhancale et al 2009).

The authors conclude that “Mozambique’s abundant forest resources have not yet translated into a profitable and sustainable SMFE sector”. Although this report is from 2009 the situation in natural forests has not really changed in Mozambique for the better.

76. In the plantation forests several service providers are emerging in Manica and Zambézia Provinces to supply Portucel with diverse silvicultural services – including land clearance and preparation, planting, weeding etc. These service providers have very few years of experience in Mozambique and some of them are coming from other countries offering limited job opportunities to local workers as stated before.

CCPs

77. The community company partnerships in Mozambique are still young and yet to be developed. Portucel has allocated 40 Million USD for partnership projects and plans to implement agroforestry projects, improved health and housing projects, whilst Green Resources is planning social projects such as improved schools, water wells and an outgrower scheme. Floresta do Niassa has allocated expenses for hospitals, wells, schools, agricultural program finance until 2015 for about 200,000 US\$, for 7,000 ha this are 30 US\$/ha.

78. Moflor is an exceptional case regarding investment planned for CCP since they have been working for more than 40 years. Their land right is therefore historical and not disputed. They can be considered as land owners. During civil war population started to move towards towns and cities for security reasons, resulting in Moflor giving land to settlements and farms on the Beira Corridor. Moflor considers this support to communities as adequate CSR.

79. NFC has started with social projects, outgrower schemes and a social fund, however they pulled out completely of Mozambique. The following table gives an overview on CSR and CCP projects in Mozambique in the four selected companies.

Table 2: Companies and CSR/CCP initiatives				
Company	Type of projects	Area of plantation (ha)	CSR budget (USD)	Total costs per ha
Portucel	Agriculture support; Housing (improving); Health	250,000 (planned)	40 Mio.	160 USD/ ha
Green Resources	Schools; wells; outgrower schemes	126,000 (planned)	30 Mio.	240 USD/ ha
Floresta do Niassa	Hospitals; wells; schools; agricultural program	7,000 (planted until now)	200,000 (to date)	30 USD/ ha
Moflor	Some land was given to communities, through new community consultation process	1,800 planted	No budget assigned	0

Source: Results from interviews

Forestry employment

80. Employment is a high priority for communities when entering in negotiations with investors. However, it can be disputed whether it is part of CCP or rather a regular production factor for companies. The anticipation of job creation is often one of the main reasons for communities to approve the company's operations and provide them with the necessary access to land (DUAT) according to the interviews conducted in this study.

81. Increased mechanization and sub-contracting of skilled laborers (e.g. to professional forest service providers) within forest plantations can in turn result in limited demand for unskilled labour, and reduce the number of jobs created. In pulp and biomass production mechanization is even more relevant compared to high value timber production with diameters above 40 cm DBH or in natural forest management. Furthermore due to the lack of skilled labour in Mozambique, companies and SME service providers do hire external skilled labour, giving less opportunities to local unskilled workers. This concern was clearly expressed by communities during interviews conducted during this study. This could be the way forward in Mozambique if an industry can be established with a value added cluster approach.

82. German et al 2016 states that in a plantation sector studied only 1% of households had acquired full-time employment and only 2% seasonal employment. So it becomes clear that unless there is a long term forestry industry with a commitment to develop local skills, SMEs will be unstable and job opportunities will remain limited. The current situation in Mozambique often leads to disappointment, since the local communities have traded land for job "promises" – at least according to their perception. In interviews conducted during this study community members felt that the land given does not compensate for the few jobs received.

4.4 The impact of CCPs in Mozambique

83. CCPs are often promoted as a mechanism for leveraging the potential of private investment for increased production and poverty alleviation. However, a recent study of a number of agricultural and forestry investments in Mozambique found that many such investments failed to result in CCPs and that most of the CCPs that have emerged resulted in limited benefits for local communities (German *et al*, 2016).

84. This analysis was undertaken in the context of a national effort to create equal conditions for local communities due to a recent wave in private investment, the Community Lands Initiative (iTC). Findings demonstrate incompatibilities between agricultural investments, poverty alleviation and rural development agendas, with many investments failing to result in successful community-investor partnerships. Most of the partnerships that have emerged have generated limited benefits for local communities.

85. The impact of larger 'pioneer' investors has also been questioned. It has been argued that such pioneer investors can generate positive spillovers for local people through demonstration effects and the availability of new technology, credit facilities etc. The findings do not bear this out with limited spillover effects seen from large agricultural investments in Mozambique (Deininger *et al*, 2015).

86. These findings are in contrast to the CCP success stories described in the previous Chapter, from the plantation forest sectors in a number of other countries. There are, however, important differences that need to be highlighted. First, the smallholder farmers referred to in the Mozambique study are mostly very small farmers with access to limited land holdings. The farmers in the cases of Brazil, RSA and even Uganda, have access to larger portions of land, whether leased from the state or privately owned. The other key difference is that in Mozambique, the plantation forestry sector is in its infancy and to date has not attracted the SME entrepreneurs that may have access to land beyond their subsistence farming needs. Thus it would be rash to conclude at this stage that CCPs will not have an impact on rural development in Mozambique.

4.5 Perceptions from the interviews

87. A summary in the form of tables of the interviews is given in Annex 1. Here we highlight the main issues that arose from the interviews. The findings are grouped by main subject area.

Land issues

88. Communities and Government representatives interviewed highly appreciated the investment of forest companies. The investment is seen as an opportunity for job creation and rural development. **Both feel that there is enough land available, which can be allocated for forest plantations.**

89. The **land acquisition process** was described as well-structured and clear by all interviewed parties. Problems however arise in the application of the process. Some of the aspects, which were raised, is the long lasting negotiation process, which makes it difficult for companies to calculate the time and the cost. Communities expressed their disappointment in several interviews, that the “promises” made during the land acquisition process were not fulfilled in terms of jobs, social projects, fluent communication with companies and agriculture support.

90. It also appears that there is **unclear perception of areas** between companies and communities during the negotiation process, which strengthens the case for a mediator and for the negotiation process to be clearly recorded (NB: this is discussed in the following section).

91. Only one company mentioned the existence of land issues and/or conflicts with local communities in the written interviews. In this case, the local population is increasingly invading the company's operational area. All the other companies stated that they have not experienced conflicts over land matters. In verbal discussions, however, **the issue of land access, the land acquisition process and arising conflicts were of major concern** of companies, communities and some Government representatives. The lack of a **land use strategy** was raised by some companies.

92. It was mentioned that land compensations to farmers that had to abandon their land inside DUAT areas, have not yet been settled in some areas. Furthermore, some communities claimed that the companies are not respecting the boundaries as indicated by community members during the land negotiation process. On the other hand, it is **likely that communities are not able to visualize the scale of the areas during land negotiation process, which may lead to false allegations accusing the company of occupying more land than stipulated.**

93. Provincial Government officials stated that there were land conflicts between communities and two companies, while other representatives did not mention such land issues.

Government involvement and support

94. More involvement in rural development from Government was the main expectation from the forestry companies. Construction and rehabilitation of basic facilities such as schools, health centres and water wells are seen as the main forms of governmental support expected from companies and communities. In some remote communities the level of governmental support is minimal. One company mentioned that collaborations, such as the agricultural program developed with an NGO, was beneficial in supporting rural development.

95. High expectations for CSR activities within communities, and population growth were concerns shared by most companies. Some also stated that outdated legislation (e.g. environmental, conservation and labour laws) and poor public infrastructure (e.g. access to markets) are barriers for ensuring the companies' success. **Companies stated that they feel left alone with the development challenges in rural areas with the absence of Government agencies, programs and support.** This was also confirmed by communities.

96. One large investor was satisfied with the current level of government support and their overall performance, while the rest of the companies identified that the lack of governmental support and engagement remains a major challenge. Companies with several years of experience believe that **government should have a more active and participatory role in mediating company-community interactions (i.e. negotiations) and conflict resolution processes.** They also believe that the DUAT allocation process should be streamlined, with fewer bureaucratic hurdles to ensure a timely, effective and efficient process.

97. Communities believe that **local and district governments should act as mediators** in CCPs and in the implementation of social responsibility programs to ensure the long-term success of their operations. The presence of local and national NGOs to participate in CCPs is also seen as a major contribution to improve the effectiveness and legitimacy of companies' arrangements with communities.

Employment

98. In Zambézia, the interviewed communities stated **that their main expectation of planted forest companies is to provide employment opportunities.** Employment is a high priority of communities when entering in negotiations with investors and is often one of the main reasons for communities to approve the company's operations. However in all cases communities were disappointed about the reality. According to them only few people were hired for seasonal work at the beginning of the company operations for land clearing, but later jobs were given rather to small service providers or the work was done by the companies themselves.

99. After nearly 10 years of forestry activities in Niassa province, communities do not see many differences in their daily lives. They admit the relationship with the companies was excellent in the beginning stages when companies were employing a substantial number of local people.

However, the community-company relationship has gradually deteriorated as the number of local employees has greatly declined with the adoption of mechanized processes.

100. There were complaints that the workers are coming from outside and local people are not hired as expected. However it became also clear during interviews, that during the negotiation process it was not discussed or agreed in detail how many jobs for which period of time will be given to how many households. There seems to be **a clear gap between expectations while negotiating with regard to jobs and real job opportunities**. The companies on the other side express their wish to hire local people, but the lack of adequate skills, adequate attitude of working regularly, reliably and problems during the agriculture planting and harvesting season, makes it difficult to rely on local people. This **results in the engagement of external service providers or external staff with the expected skills and working attitude**.

101. The high levels of **absenteeism** was mentioned by some companies and the difficulties of dealing with this under the current labor legislation.

Other issues

Communication:

102. Apart from the conflicts on land, which is mentioned above, there is a clear frustration related to the non-compliance with expected labor “promises” or non-compliance with other negotiated benefits. There is a **gap in perception and expectations between companies and communities** with regard to the negotiated results on land, employment, social projects, agriculture support and timeframe. The Provincial governments stated that a main challenge remains that forestry companies often do not provide data on a monthly basis as requested, and as a result they are unable to monitor companies’ progress. Furthermore, they assume the **lack of communication between district and provincial cabinets** is a major obstacle to support companies and communities. One company is currently working with a small team of social development officers to meet with community representatives to improve their communication efforts, however they are struggling to frequently reach all of the communities affected by their operations.

103. All communities interviewed emphasized the need for improved communication channels, ensuring regular and transparent communication between communities and the forestry company. There were often claims that the community workers or company representatives do not appear for a long time and it is not clear to the communities when the proposed projects will start. This was also admitted in interviews with companies, that the cash flow sometimes makes timely implementation of the social projects impossible, since investments in afforestation activities are always prioritized.

Fire risk:

104. There is also a **shared concern of fire risk** in most communities where commercial plantations are operational. Where the trees are older, communities fear for the economic value of the timber, whereas in other plantation areas, adjacent communities are afraid to be blamed for instigating the fire and the resulting punishment (e.g. imprisonment, costly fines).

Green Resource’s communities are worried about fires since a fire would decrease the amount of funding dedicated to the Community Fund, since one component of the funds input is the payment of USD 1/ha/year for fire free plantations.

Agricultural support:

105. Communities' **interest in engaging in agricultural activities** is high. However, the only agricultural program (promoted by one forestry company) experienced some problems with marketing the products in 2012 due to lack of demand in the province. The problem was resolved with the development of different industries in Niassa province, eliminating the sales problems from 2013 onwards.

5 Recommendations and way forward

106. In this chapter we summarize the lessons learnt in and outside Mozambique with regard to company – community partnerships, leading to recommendations for how to better support smallholders in the emerging commercial forest sector in Mozambique. These recommendations feed into the roadmap and action plan (task 3 report).

5.1 General forest sector development

CSR, CCPs and SMEs

107. In the Mozambique case it is difficult to differentiate between CSR and CCP. While we have defined CSR more a voluntary, social interaction, CCP is rather a business oriented, contractual partnership. In order to secure land use rights (DUATs), companies have to apply social development measures and contractual agreements. Some form of CCP is always required and should be seen as a necessary investment as part of the land acquisition cost. **CCPs are a precondition to acquire land, safeguard local jobs and minimize the production and reputation risks for investors.**

108. What we can conclude is that these measures **enhance trust and confidence** between communities and companies, provided they are well implemented. We clearly see that CCP is an **iterative process** starting with small social projects and hopefully ending up in professional SMEs and service providers owned by local community members individually or as a group. There is no shortcut in this process since company – community partnerships have to grow mutually. CSR and CCP **needs long term interest, commitment and consistency from investors and a stable framework**. During this study changing policies, laws and regulations and were expressed as a barrier to build stable company - community partnerships. Examples are planned projects which cannot be implemented because of lack of funds from investors or because the Government does not provide the respective authorization and commitment (i.e. teacher for a school, nurse for a health center). Thus it is important to formalize CCP agreements, preferably in the presence of local government officials as independent mediators.

5.2 Land

109. The process of acquiring land (DUAT) is fairly well structured, but is a long and time consuming process. Negotiation basically never ends since expectations are not well expressed and documented. Forestry companies **do not have experiences in social negotiation processes;**

their expertise lies in technical forestry expertise and management. On the other side communities lack negotiation power and do change their representatives. We therefore see a lack of **skilled mediation to facilitate negotiations and agreements between the different stakeholders**. It could be useful if the negotiation process is facilitated by a third party with expertise in the land negotiation process.

110. There is a need to **streamline the DUAT process**, make sure that **clear and transparent agreements** are achieved and documented in such a way that it is understandable to all parties. There is also a strong request from companies and communities that **Government should be present not only in the negotiation process but also in conflict resolution, in development support and in coordination**. However local Government is often not aware about the company activities, does not have the tools, means and knowledge to intervene and facilitate development processes. **Communication between company and communities and company and Government also needs improvement**. This is a responsibility of the company and the public sector and does not only refer to the DUAT process.

111. Experience in Mozambique and other countries show that a lump sum payment per ha paid into a **community fund** is an approach that can work for investors. It is often welcomed by the communities and can be a driver for rural development. This would reduce the pressure on companies for social projects, which is not their main business and could satisfy communities and local government, since there will be an annual budget allocation. Land acquisition cost would be better calculated and planned. Experiences in other countries however also show that this fund needs to be transparent and properly administered: companies might need to assist with its set up and monitoring to avoid mismanagement.

5.3 Active participation of decentralized Government

112. The presence of local government in land use (DUAT) negotiations is strongly recommended. Provided they remain independent and neutral, local government representatives should mediate negotiations between companies and communities and ensure that any agreements made are clearly understood by both parties and are duly recorded.

5.4 Employment

113. When forestry companies invest in Mozambique, there are high expectations of communities with regard to working opportunities which do not match with reality and the expectation of a better quality of life. Job opportunities are the main reasons why local communities allow forestry plantations on their land. It is **not clearly expressed and negotiated how many jobs can be given to local farmers**.

114. Another issue is that generally, **local farmers do not have the required skills** and are not accustomed to a regular work environment: **productivity can be very low**. Companies tend to hire external skilled labor, which is causing friction and frustration.

Clear and precise agreements on job opportunities are missing and not documented during the negotiations.

115. Local people are not automatically absorbed by SMEs and companies, as long as there is no policy and action on local employment and programs to train local people adequately. A **vocational training program for local workers and SMEs is needed** and could be funded by companies and public sector.

5.5 Outgrowers/SME support

116. As noted earlier (section 4.2), most of good examples of outgrower schemes in Mozambique are in the agriculture sector. These are largely contract farming schemes, where production is by individual framers but where contracting may be done at individual or group level. Forest investments, however, are different and need long term investment and commitment. Outgrower timber schemes are still young in Mozambique, but lessons can be learnt from international examples – as described in section 3.2.

117. The example of outgrower timber schemes is interesting, since quite often it starts with small plantation plots, but can later become for individual farmers a real business opportunity, by selling trees to the company and by providing other services around the plantation individually, as a group, cooperative or company. In Mozambique however it is currently not clear if a local farmer can start planting 100 ha of trees, since his land rights are not clear. **This clarification of land use rights is essential in Mozambique.**

118. Clearly in Mozambique, potential SME tree farmers need a long-term contract and assistance financially (e.g. loans or credit facilities) and technically (e.g. advice on silviculture, access to high quality planting material etc.). These conditions can be provided by the interested company or by the public sector or as a combination of both.

119. Another important consideration when supporting outgrowers is to ensure that they are **clustered**: if the plots are too small and scattered, the costs for extension, input supply, silviculture and harvesting will be too high. Another lesson learnt in this context is the need to **establish a value chain**, in order to develop appropriate markets – whether local or international – thereby making the business venture attractive to growers. **This cluster approach is a shared responsibility between company and public sector.**

120. Lastly we consider it important that contract farmers or outgrowers (agriculture or timber) in Mozambique are **supported in food production**. The productivity level is very low and with few measures and extension a stable food production and surplus in production can be established. The main interest of farmers in rural areas is still the food production and not timber production.

121. Examples of SMEs indicate that individual farmers can start working as an employee, later there are opportunities to become independent service providers, offering support services such as land preparation, weeding, spraying, pruning, harvesting and transport. What is essential however is the **formation and vocational training of these service providers which need support from the company and the public sector.**

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http://www.mondigroup.com/PortalData/1/Resources/newsroom/images/MondiZimeleLeaflet_print (access: Sep. 2015)

Information about Project Grow implemented by Sappi Southern Africa:

<http://www.sappi.com/regions/sa/Sustainability/faqs/Pages/default.aspx> (access: Sep. 2015)

- **Information from Interviews**

Interviewed Provincial Forestry and Wildlife Government in Mozambique:

1. Niassa
2. Zambézia
3. Manica

Interviewed forest companies in Mozambique:

4. Florestas do Niassa
5. Green Resources
6. Portucel
7. MOFLOR

Interviewed communities in Mozambique:

8. Mussa, Naicunga, Mapaco, Cassumare, Chimbunila 1, Chimbunila 2, Colongo (Chimbunila district), and Unango (Sanga district **Niassa province**)
 9. Ahmela, Mutola, Nacocolo, Namacala, Murrela (Ilé district, **Zambézia province**)
 10. Nhachoco (Gondola district) and Chinhambuzi and Bandula (Manica district, **Manica province**)
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Annex

Annex 1: Questionnaires

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Companies Questionnaire

1. What kind of programs do you have with communities (agriculture, school, water, out-grower, health, conservation etc)? Please describe.
1. Do you have a community policy? Can we have a copy?
2. Do you have an annual work plan for Community Programs? (CP)
3. Do you have annual reports – can we have it?
4. How many staff do you have to attend CP?
5. How many families do you attend (per year/ per month)?
6. Do you have a fixed budget or percentage for community program? How much is it?
7. Do you have an outgrower scheme? How is it working? What are the challenges?
8. Where are the main conflicts with communities?
9. How do you face the conflicts?
10. What are the success stories with regard to CP?
11. Where do you see the main challenges with CP?
12. How do you see the Government role (district, provincial, national) – supportive, not supportive?
13. Where do you see limitations in the Government role?
14. Where would you need outside support?
15. Who could provide the support?
16. Where do you see limitations in laws/ regulations with regard to CP?

Communities Questionnaire

1. What is the importance of a forest? Which benefits does it bring to your family? In which way that is it contribute to your livelihood?
2. How do you see the presence of the company here? Is it positive?
3. What benefits do you expect or did you expect from the forestry company?
4. Where these expectations fulfilled? Which one yes, which ones not?
5. Does the company interact with the communities on a regular basis? (Information about the progress of the activities or any other aspects)

6. Do you expect any kind of conflicts with the forest company? If yes, which can be the cause for that?
7. Have there been any conflicts?
8. Which conflicts?
9. How were these conflicts resolved?
10. Are there conflicts on land?
11. Is there any current visible benefit from the company? (Community members getting employed, new or repaired infrastructures, schools, water, agriculture, etc.)?
12. Does the company assist in agriculture, nutrition, health?
13. Please name the benefits you see.
14. Do you think the company will only benefit few people or a large number of members in your community?
15. Was there any project before in your community? Was it successful? Please describe.
16. Do you receive any support from the Government or NGOs or projects? Which ones?
17. Do you participate in outgrower schemes (forestry or agriculture)?
18. What has changed since the company came?
19. What should be changed?
20. What do you think – is life better since the company came or is it better or just the same?

Government Questionnaire

1. How do you see the presence of the company here – is it good for the region? Why?
2. Do you know if the company has got any type of Social Responsibility programs or Community Company Partnership in their business plan? If so, which ones are implemented so far? If not, what is the reason? Outgrower schemes?
3. Is there any periodic information on the progress of the programs that the company is implementing?
4. Do you see any gaps in the interaction between companies and communities (social, institutional, environmental and economic)?
5. Do you have regular meetings with local communities for consultation about their interactions with the companies?

6. How has the community been engaged in making decisions about the programs?
7. Are there conflicts between community and companies that needs to be addressed at a Provincial Level?
8. If there are conflicts, how are they resolved?
9. How do you address problems if there are any – are you involved?
10. Do you have any possibilities to intervene if there are any problems?
11. What should be improved with regard to the community – company partnership?
12. Do you think the partnership is good?
13. How do you see your role in the company – community relationship?
14. What are your limitations to interact?
15. What are the risks and threats?
16. What needs to be improved at government level, regulations, laws?
17. What should be improved at company level?
18. What should be improved at community level?

