

PAPERS

Mutually beneficial company-community partnerships in plantation development: emerging lessons from Indonesia

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SUMMARY

Social conflicts with local people have caused some unsuccessful timber plantation developments in Indonesia. Company and community partnerships have provided opportunities for companies to accommodate local communities' involvement and attempt to overcome these difficulties. Constraints in establishing mutually beneficial partnerships were studied, mainly to improve their long-term viability. The main components of a successful mutually beneficial partnership were defined as: commercial feasibility, equitable contractual agreements, the full understanding of both parties of the potential benefits and costs, and risks of joining the partnership, and a shared understanding of co-management and participatory approaches. The implementation of all three case studies suffered from: a lack of mechanisms to build trust; challenges to commercial viability due to inadequate management planning and consequently poor implementation; inadequate assessment of community needs and resulting waste of companies' funds when developing income generating packages; no clear long-term reinvestment strategy; and poorly developed negotiation and renegotiation mechanisms.

Keywords: company-community partnerships, forestry, Indonesia, plantations, socio-economic assessment

INTRODUCTION

In the future, wood supplies will increasingly have to come from planted forests due to the high deforestation rates suffered by natural forests, recorded at the rate of 14.6 million ha per year (FAO 2001). However, to date there have been few success stories in forestry plantation development in the tropical forest-rich Asian countries, including Indonesia.

Forest plantation development in Indonesia clearly demonstrates how social and political problems, such as disenchantment, resentment and conflict over forest resources, have resulted in low planting (Anonymous 2000, Kartodiharjo and Supriono 2000, Muhtaman *et al.* 2000, Anonymous 2001, Gintings *et al.* 2001). Only about two million hectares have been planted since 1985, out of a target of 6.2 million hectares (Handadhari 2001). Stimulated by growing social conflicts with local communities living in and around concessions, companies have felt an urgency to initiate initiatives that involve more local communities to address social gaps.

Company-community partnerships involving a contract agreement, or outgrower schemes, might be one effective approach for ensuring a sustainable supply of timber while sharing the benefits (and risks) with local communities.

The partnerships involve two or more parties combining to share land, capital, management and market opportunities, under a contractual agreement, with the aim of producing commercial timber or some other forest crop (Mayers 2000, Mayers and Vermeulen 2002).

The Indonesian Ministry of Forestry (MoF) has tried to encourage different partnership schemes by providing financial credit to support the initiation of different schemes since the mid-1970s. Unfortunately, these schemes were only viable in the short-term, largely because of government driven initiatives and companies translated these programs into charity-driven activities with limited local people participation in the planning (PESUT 1996, Kartodiharjo and Supriono 2000). Programmes included the Farm Forestry Credit Scheme initiated in 1977 and a programme between industry forest concession holders and resettlement participants called 'HTI-trans' since 1992 (Potter and Lee 1998).

Company-community partnership schemes have introduced an alternative approach to that used by Indonesian companies in the past (Potter and Lee 1998). In outgrower schemes, outgrowers are usually defined as tree growers who maintain planted areas outside a company's plantation

concession, though in Indonesia outgrowers may also have planted areas inside the concession. Companies in Indonesia do not have a clear idea of which mechanisms would work best in the field and to what extent a participatory approach could be used to ensure full commitment from the landowner partners without jeopardising the companies' objectives to maximise profits.

The main aim of this study was to assess existing company-community partnership schemes, and to identify important features of mutually beneficial partnerships. Specific research questions were:

1. How were different schemes initiated?
2. How was each set of company schemes able to meet the company's objectives?
3. What can be learnt from these schemes to identify key features of mutually beneficial partnership to ensure long-term viability?

The four main components of mutually beneficial partnerships were defined to be: commercial feasibility throughout the contract term; equitable contractual agreements based on fair valuation of shared inputs for achieving mutually agreed economic and social objectives; full understanding by both parties of the potential benefits, costs, and risks of forming the partnership; and a common understanding of co-management concepts and participatory processes. These components formed the framework of analysis and the basis for designing the assessment guidelines. A more detailed account of the background to the study and its findings is given in Nawir *et al.* (2003).

CASE STUDY COMPANIES

The study was conducted in collaboration with three private companies, Wirakarya Sakti (WKS), Finnantara Intiga (subsidiary of Stora Enso), and Xylo Indah Pratama. Interviewed staff from the companies indicated that the intention of the partnerships was to build good relations with the communities and to gain more credibility at national and international levels. Three types of schemes were researched:

1. Partnerships between timber plantation concession holders and land claimers/ owners residing within concession areas (WKS, Finnantara).
2. Partnerships between timber plantation concession holders and landowners in the areas outside the concessions (WKS).
3. Partnerships between non-concession timber plantations and private landowners (Xylo).

METHODOLOGY

Assessing whether partnerships are mutually beneficial

The guidelines for assessing partnerships cover management, economics, and socio-cultural aspects (Table 1). They were based on the toolbox of criteria and indicators (C & I) for sustainable forest management (CIFOR C&I Team 1999), C & I for sustainable plantation forestry in Indonesia (Muhtaman *et al.* 2000), and lessons learnt from partnership studies (Roberts and Dubois 1996, Arnold 1997/98, FAO ACPWP 1999, Race 1999, Desmond and Race 2000, FAO 2000, Mayers 2000).

The assessment guidelines were used as the research framework to develop verifiers for different stakeholder groups and to provide the basis for evaluating if the partnerships were mutually-beneficial. During fieldwork, questionnaires and points for focus group discussions were developed using these verifiers (Appendix 1). Verifiers are the data or information that guides practical assessment of an indicator on the ground (CIFOR C&I Team 1999). Not all of the verifiers could be applied, since none of the partnerships have reached harvesting time (rotation), so the assessment focussed more on the processes of establishing partnerships.

The management assessment explored whether there was a fair co-operation between key stakeholders, as indicated by the existence of a participatory process in designing the contractual agreement, to ensure mutual acceptance of both parties' partnership objectives (Robert and Dubois 1996, Geilfus 1997/98, Race 1999, Desmond and Race 2000). The management assessment also covered issues related to management plans. The economic assessment explored whether the smallholder plantations fulfilled the expectations of the company to have wood for commercial purposes, and of tree growers' prospects of earning income (Foy and Pitcher 1999, Baumann 2000, Cairns 2000). The assessment also investigated whether there was a 'fair profit sharing agreement'. 'Fair profit sharing' was assumed to exist if profit sharing was proportional to the levels of input taking into account the risks in investing, and if there was a mechanism for fairly evaluating those inputs. The socio-cultural assessment considered whether the partnership schemes met socio-cultural objectives, such as planting the local species that are important locally, and practicing local knowledge in managing the plantations (Morrison 1992, Carrere and Lohmann 1996, Kanowski 1997). Long-term rights (not necessarily tenure or land title, but could include such as land paper recognised and signed by the head of the village) were clarified prior to the signing of the contractual agreements. Mechanisms to promote balance in power of different stakeholders were also assessed.

TABLE 1 Principles, criteria and indicators used in devising the guidelines for assessing partnerships

| | |
|--|--|
| 1. Management principles | |
| Principle 1: Fair cooperation is the approach used in the management of the partnership | |
| Criteria 1: A clear agreement among key stakeholders is developed through a participatory process | |
| Indicator a: Participatory socialisation process in place | |
| Indicator b: Clearly understanding and implementing the rights and duties in the agreement document | |
| Criteria 2: A clear management plan is designed through a participatory process among key stakeholders | |
| Indicator a: Management plan is well understood by key stakeholders | |
| Indicator b: Management plan is effectively implemented by ensuring the dissemination of information on technical and financial aspects | |
| Principle 2: The implementation of partnership schemes encourages responsible practices of sustainable plantation forestry management | |
| Criteria 1: Rules and guidelines of good practice in establishing plantation forestry are being adhered to in the partnership | |
| Indicator a: The relevant rules and guidelines are taken into account within the management plan | |
| Indicator b: The management plan is implemented following agreed codes of practice | |
| 2. Economic principles | |
| Principle 1: The partnership schemes take into account the economic objectives of key stakeholders | |
| Criteria 1: The scheme maintains a focus on the commercial interests of key stakeholders | |
| Indicator a: Comparative advantages increase | |
| Indicator b: Available markets for the planted timber of tree-growing partners | |
| Indicator c: Income options available to bridge the gap between planting and timber harvesting | |
| Indicator d: The scheme facilitates tree growers in becoming independent technically and financially | |
| Criteria 2: Economic risks are anticipated | |
| Indicator a: Adequate proportion of the revenues from the main timber crops is reinvested to sustain the plantation and partnership scheme | |
| Indicator b: Diversification of products | |
| Indicator c: Alternative market exits if company fails to buy timber from growers | |
| Principle 2: The benefits are shared based on the proportional inputs of each stakeholder | |
| Criteria 1: Mechanisms for fair economic relationships and economic power sharing exist | |
| Indicator a: A fair benefit-sharing agreement exists | |
| Criteria 2: A fair valuation of stakeholders' inputs | |
| Indicator a: All economic inputs are well-recorded | |
| Indicator b: Information is circulated transparently to all stakeholders. | |

Case study selection and interviews

To be selected, a scheme had to have been in existence for at least three years and still to be operating. There were very few schemes that met these criteria. Willingness and cooperation on the part of the companies to be closely studied were also important. However, objectivity was prioritised in implementing the study and critical assessment was provided directly to individual company.

Data were collected through a series of semi-structured interviews with company staff, government officers, and community members (both who were and were not joining the partnership) (Table 1). Those who were not participating provided counter views to the participants' opinion on company scheme, and the reasons for not joining the scheme. Fieldwork was conducted over a three month period from August to November 2000. Further information was collected in focus group discussions. Fieldwork sites, where partnership schemes have been developed, were purposely selected to contrast low and high levels of

planting and different socio-cultural and livelihood settings. Six sub-villages (*dusun*) in four districts of the WKS areas were included for fieldwork in Jambi Province. Three villages were selected in Musi Rawas District, South Sumatra, where Xylo is located, and six sub-villages surveyed in Sanggau District in Finnantara, in West-Kalimantan Province.

TABLE 2 Details of the stakeholders sampled in the survey

| Stakeholders | Schemes | | |
|---------------------|----------------------------------|-------------------|--------------------|
| | WKS (both schemes 1995 and 1999) | Finnantara Intiga | Xylo Indah Pratama |
| Tree growers | 51 | 43 | 38 |
| Company staff | 9 | 12 | 11 |
| Non-tree growers | 9 | 19 | 10 |
| Government officers | 9 | 5 | 5 |

RESULTS AND DISCUSSION

Types and motivation to form partnerships

WKS is an Indonesian company holding a concession for a timber plantation granted by Ministerial Forestry Decree. It manages a concession area in Jambi province, spread over four districts. About 40% of the concession could not be planted because community members had claimed ownership of these areas. The first scheme was initiated in 1995, while the current scheme was initiated in 1999/2000 (Table 3). The aim was to establish a partnership as an approach to resolve long-term conflicts over these lands.

In Finnantara areas, approximately 60,000 people in 110 villages are located inside company's concession in Sanggau, West Kalimantan. There also, about 80,000 ha (27%) which cannot be utilised because they overlap with areas used for oil palm plantations, have villages, or are primary forest. The concession, granted in 1996 consists mostly of *Imperata* grasslands in logged-over areas (Miettinen and Lammi 2002). Establishing plantations while recognising local people's rights is the main focus for Finnantara in initiating its partnership scheme. Due to the local communities' previous bad experiences with reforestation projects in the same area, the company found it difficult to convince them to enter the partnership scheme.

After the Ministry of Forestry turned down its application for a Timber Plantation Concession, Xylo Indah Pratama established a partnership scheme with local communities in Lubuk Linggau, South-Sumatra, in 1995. For the first two years, the company received loans under

the Farm Forestry Credit Scheme Program to start the program, but the funds stopped in 1997/98 due to the Asian financial crisis and fund management problem at the ministerial level. Before the scheme, the company had exhausted its supply of wild grown *Jelutung* (*Dyera* sp.) bought from the local communities and urgently needed a new supply of other timber species. Xylo needed a certified supply of wood, mainly to maintain its commitment to its main partner, Faber-Castell, a German pencil manufacturer. Establishing good relations with the community through partnership has helped Xylo to pass social criteria assessment and granted Forest Stewardship Council Certification by Smart Wood for two years from 2000.

In all schemes, the landowners' main motivation to join was to utilise and secure idle lands, from which income could be derived. For the first WKS scheme (1995), another reason was related to the companies' partnership scheme package, namely the expectation for new roads provided by the company. In the case of Finnantara, most landowners (96%) joined the scheme because the company offers credit for agricultural inputs. In the case of Xylo, an additional incentive was the current high price paid for wild *Alstonia* wood, which the company proposed planting, provided tree growers have the option of selling also to outside markets. Non-growers did not join the partnership because they do not have extra lands in addition to their main field for cultivating rice, or their lands are too far from company location. They were willing (83%) to join if there were opportunities.

TABLE 3 Partnership schemes, initiation year, term of contract, species and size of potential partnership areas

| Type of partnerships | Schemes | Initiation year (First harvest) | Term of contract (Years) | Species (End product) | Size of potential partnership areas |
|---|--|------------------------------------|--------------------------------|---|---|
| Concession and land owners inside the concession areas | WKS- <i>Hutan Tanaman Pola Kemitraan</i> | 1999/2000 (2008) | 43 ^b | <i>Acacia mangium</i> (Pulp) | 82,368 ha (33% of 251,218 ha concessions) |
| | Finnantara Intiga | 1996 (2003) | 45 ^b | <i>Acacia mangium</i> (Not specified) | 50,000 ha (17% of 299,700 ha concessions) |
| Concession and land owners outside the concession areas | WKS- <i>Hutan Rakyat</i> | 1995 (2003) | 8 ^a | <i>Acacia mangium</i> (Pulp) | 3,559 ha has been planted (potential areas depend on local community' demand to join the schemes) |
| | WKS- <i>Hutan Rakyat Pola Kemitraan</i> | 1999/2000 (2008) | 43 ^b | <i>Acacia mangium</i> (Pulp) | |
| Non concessions and a group or private landowners | Xylo Indah Pratama | 1995 (2005) | 11 ^a | <i>Alstonia</i> sp. (Pencil slats) | 10,000 ha (6,100 ha have been actually planted) |

a. According to the rotation of the tree species

b. Following the term granted for timber plantation concessions by the Ministry of Forestry

Formulating contractual agreements: defining rights and responsibilities

Companies were responsible for all plantation costs, as well as for the costs of building up community organisations, training and extension programs. In return, the companies received secure access to planted lands and timber crops. The companies decided the timber prices (or royalty rates) as included in the contract agreement, and the wage rates for employed labour. The tree-growers were responsible for ensuring that the planted lands were free from any form of land claims, to minimise any future conflict. Therefore, tree-growers were required to provide a letter on land status before they could join the scheme, especially if there were historical conflicts in the areas. The tree-growers were also responsible for risks arising from third party claims if any, and would have to pay compensation to the company for all initial expenses in establishing partnerships in the event of the claim being successful.

In the first WKS (1995) and Xylo agreements, the contracts were very simple and focused mostly on describing the responsibilities and rights of the company and landowners. The Xylo agreement was more flexible, with provision for the growers to sell the timber to companies other than Xylo if, for some reason, the company was not able to harvest at the end of the cycle. The company also responded to case-by-case requests from tree-growers to provide agricultural seeds. There was a separate agreement on the rights and responsibilities for receiving this credit. In both schemes, profit sharing agreements were based on net revenues of the harvested timber. The WKS and Xylo schemes applied a 50:50 sharing ratio. In some cases, WKS applied a 60 to 40 ratio, where company receives bigger proportion if the company had to build a road.

The contractual agreement of the current WKS schemes (1999/2000) goes into much more detail on the economic arrangements. Initially, the company introduced a farm support scheme to persuade potential landowners to join the scheme. By initiating activities on behalf of its partners, the company expected to borrow money from the bank and generate revenues for *Acacia* plantings. While

tree growers received all the net revenues from their agricultural activities, there was profit sharing for planted timber based on the proportion of share holdings of the joint venture company managing the scheme. In the beginning, the company applied a ratio of 80:20 of share holdings, but this will be adjusted until it reaches 35:65 by Year 35 when tree growers will hold the largest proportion of shares.

In the Finnantara scheme, the company applied a ratio of 90:10 in favour of the company in sharing the profits from timber sales. A minimum royalty value was guaranteed for the timber. To secure access to the land over the 45-year period of the contract, the company applied certain conditions. For instance the contract stated that landowners could not claim back the land or prevent the company from accessing the land. The partnership program also included an income-generation option for tree growers to fill the gaps between planting and harvesting. This included a wet rice intensification program, and planting high-yielding rubber trees. Other offers in the package included payments to respect the traditional values, and funds for traditional ceremonies prior to land clearing

Potential benefits for the company

The estimated wood supplies from the partnership schemes will meet a significant portion of the needs of companies (Table 4). For WKS, potential volumes will be in addition to the existing supply from the company's non-partnership areas. Xylo, with its small-scale processing plant, will have abundant supplies from the partnership areas, even under low projected standing volumes. Considering the growing demand for wood, e.g. from moulding and frame producers in Java, and for local construction, the potential excess supply of *Alstonia* could be absorbed and prices stabilised. If not, the wood prices could decline. The company also gains in public image and credibility. Good relations with local communities have helped Xylo pass the annual assessment of social criteria from the certifier for the last five years.

TABLE 4 Estimated tree production on company-community partnership areas and proportion to annual requirement

| Schemes | Harvested areas (ha/year) ^a | Harvested volume per unit area (m ³ /ha) ^b | Total harvested volume (000 m ³) | Proportion to annual requirement (%) |
|--|---|--|---|--|
| WKS scheme inside the concessions | 10,296 | 75 – 150 | 772 - 1,544 | 46 – 93 |
| WKS schemes on private community lands | 1,644 | 75 – 150 | 123 - 247 | |
| Finnantara Intiga | 5,993 | 75 – 150 | 449 - 899 | 20 – 40 |
| Xylo Indah Pratama | 1,350 | 100 – 260 | 153 - 397 | > 100 |

a. Based on planted realisation data, except for WKS scheme inside concessions which was based on potential partnership areas

b. Average of high and low estimation timber volumes. High estimation was based on companies' feasibility study, while low estimation was estimated as 50 percent lower.

An immediate benefit resulting from the partnerships was the resolution of land conflicts by recognising local people's land rights inside concessions (e.g. WKS scheme). This provided a good starting point from which to establish a mutually beneficial relationship between the company and local people, thereby securing the company's investment over the long term

Potential benefits to the tree growers, non-growers and local government

Partnership schemes potentially provide extra income, from harvested timber as well as from income generated from the company's overall package for partners. The Xylo Scheme provided the highest revenues at US\$ 434/ha (Table 6). There were also revenues from thinning at Year

5 and 7, as well as good market prices for timber (*Alstonia* sp.), which have continued to increase over the last two to three years. Estimated revenues under the Finnantara scheme were much lower, since the tree growers receive only 10 percent from the total volume of harvested timber, as the calculation was based on the minimum guaranteed royalty. In contrast, however, the company invested more in income generation packages than the other two companies. Thus, as part of the company's package, tree growers received between US\$ 40 and US\$ 70 per ha in net revenues from non-timber income sources over one acacia rotation, derived from rice production (year 1), and rubber (started from year 6 to 8). In addition to annual household incomes, tree growers receive an additional US\$ 109 to US\$ 2,042 income from harvested timber, and they consider this income as their savings.

TABLE 5 Financial shared revenues from jointly managed areas (in US\$)

| Schemes | Revenues per ha ^a | | Revenues from income generating packages ^b | Estimated household income of tree growers (per year) | |
|--------------------------------|------------------------------|--------------|---|---|--|
| | Company | Tree growers | | Tree planting at harvesting ^c | Regular income with no timber ^d |
| First WKS scheme | 171 | 171 | - | 585 | 795 |
| Current WKS schemes | 211 | 137 | 70 | 382 | |
| Finnantara Intiga ^e | (364) | 64 | 62 | 109 | 600 |
| Xylo Indah Pratama | 488 | 434 | 40 | 2,042 | 1,209 |

a. Company receives the revenues only from timber and bears all the costs, tree growers receive net revenues from timber and gross revenues from farming

b. Incomes include from dry rice field production, chilly, fish farming, rubber

c. Discounted values of estimation at harvesting time, on average tree-grower lands per household included under partnership schemes (3.42 ha for WKS, 3.52 ha for Xylo and 3.40 ha for Finnantara)

d. Calculated from the data collected by the team from the Faculty of Forestry-Bogor Agricultural University (2000)

e. Company bears the negative profits and has to fulfill its responsibility in paying tree growers' shares

Different types of local land status were recognised by the companies (Table 6). Support from government authorities was essential in allowing flexibility within the companies in their acceptance of this diversity in land status. For example, in WKS Scheme, the head of the district in Jambi (WKS Scheme) approved the final contractual agreement. From the tree-growers' perspectives, company recognition has indirectly led to more secure long-term rights and clearer boundaries between the landholdings of different community members. In the past, most companies would not accommodate any local rights and reallocated communities inside concessions to other places. This has helped to resolve local land conflicts.

Most tree growers appreciated that the partnerships generated other benefits as well, 93% stated they received economic benefits and 61% stated they were happy with the social benefits. Benefits received are important to secure their commitment to the contract agreement. These included, first, opportunities for community members (whether a tree grower or not) to work in the plantations, in nurseries, or by collecting seeds and selling them to the

company. Second, community members could receive assistance from the company for social funds and road infrastructure. Third, growers were exposed to the intensive cultivation of timber crops, giving them valuable practical experience on cultivation practices which was previously not locally available. Fourth, they had access to extension services and good quality seedlings for plantations. Fifth, there were intensive and positive interactions between the company and tree-growers, and also among the tree-growers themselves. Lastly, non-growers had the opportunity to use the lands for multi-cropping in the first two or three years. To some extent, local governments benefited from the development of under-utilised land through revenues generated by land and property taxes. In addition, local governments were paid to participate in the awareness raising programs of the companies when the partnership scheme was introduced to the community. The Government also received payments for mediating conflicts.

TABLE 6 Greater recognition of tree growers' long-term land status inside concession areas

| Categories of land status | Requirements and implications for rights assurance |
|---|---|
| Communal land belongs to the village (included customary or <i>adat</i> lands, but no <i>tembawang</i> ^a) | <ul style="list-style-type: none"> • Community members respect the land status as required by <i>adat</i> or customary rules • May not be administered in the land status categories according to state law |
| Individual land status with written proof signed by the head of village (<i>SKT- Surat Keterangan Tanah</i>) | <ul style="list-style-type: none"> • Approved by the Head of the Village and respected by communities in the neighbouring villages • Can be upgraded to get a land certificate from the National Land Agency (<i>BPN – Badan Pertanahan Nasional</i>) at the provincial level |
| Individual land status with written proof signed by the Head of <i>Dusun</i> (sub-village) (<i>SPH-Surat Pengakuan Hak</i>) | <ul style="list-style-type: none"> • Approved by the Head of <i>Dusun</i> (sub-village) and may be respected between villages • May be upgraded to get a land certificate |
| Individual land based on land certificate | <ul style="list-style-type: none"> • Legalised land status and approved by all levels of government authorities • Respected by all parties |
| A document indicating the rights to transmigration areas | <ul style="list-style-type: none"> • Secured land status under government resettlement/transmigration program • Respected by all parties |

a. In Sanggau (Finnantara scheme), this does not include *Tembawang*, which is individual traditional land planted with different kinds of trees (usually fruit trees)

Challenges to building trust between the company and tree growers

Companies drew up and revised the agreements with only limited involvement of the tree-growers (31%) because they thought most community members would not be familiar with the concept of partnerships in planting timber. As a result, tree growers had only partial understanding of the agreements (73%), and did not appear to be sufficiently familiar with the risks and consequences of signing the contracts. This sometimes resulted in lengthy land acquisition processes and may have reduced commitment during the remaining contract term. In the current WKS schemes, tree growers felt that the profit-sharing agreement was too complicated. Apart from the Xylo scheme, none of the schemes recognised the tree-growers' needs to transfer their rights under the contract to their heirs. Given the long period of time required for growing timber trees and the period of the contract, this entitlement is essential. Apparently, those who signed the Xylo contracts individually (85%) had a better understanding of their duties and rights than those who signed the contract as a group. However, there were 54% growers who preferred to sign the contract as a group.

Insufficient information was shared with the tree growers, even though the company claimed to have delivered information. For example, updated wood prices were expected to be shared regularly, but the company failed to provide this information. The company is the main and only source of information, especially in the absence of a local market. Some tree growers (34%) learned of the price during the awareness-raising process, while others (59%) believed that the company would

inform them of the price just before harvesting. The tree growers (73%) also revealed that no regular meetings were scheduled as a means of sharing information.

A renegotiation mechanism was included in the contracts, but its implementation by the companies was half-hearted. Most tree-growers (89%) were not aware of their rights, to renegotiate the agreement and timber price. The companies only renegotiated minor items, mainly with the head of the Forest Farmer Cooperative or Farmer Group. In the Xylo contracts, an unusual demand required that any renegotiation leading to changes in any item of the agreement had to be done through a legal notary. This disadvantaged the tree growers who had little experience in dealing with a legal notary, and who may not have been able to bear the cost.

Challenges to commercial viability

The plantation management plans were not implemented effectively due to lack of capacity and inadequate capacity building. There were no written management plans or working guidelines provided to tree growers, they were mainly communicated verbally to the head of the working team in the field, who subsequently passed on the information verbally to other team members. Due to the selective and limited training process only some tree growers (41%) adequately understood the technical requirements and the majority (59%) were unaware of the management plan. The growers (68%) took no part in the planning process, partly because only the head of the *dusun* or of the farmer group were given a copy of the contract.

Companies have limited staff with the expertise to

provide effective extension to tree-growers. Company staff also referred to ineffective internal communication, so that visions, concepts and principles for establishing the partnerships were not clearly communicated from top management to field staff. Frequent rotation of company staff disrupted the relationship between the company and the tree-growers, adversely affecting implementation. In designing the management plans, companies mostly focused on the short-term (i.e. one rotation), and made no provision for long-term reinvestment strategy. Competing land uses, mainly from expanding oil palm plantations, were also a problem faced during implementation.

The partnerships lacked a fair evaluation of invested inputs from both parties as a basis for profit sharing between the company and tree growers. In the contracts, the main inputs used to derive the profit sharing ratio were the costs of establishing the main timber crops, including the labour costs of tree-growers, and the income generation packages. The tree-growers bore the responsibility of paying the land taxes. Significant company inputs excluded from the calculations were the cost of constructing roads, the occasional social funds, which were usually poorly recorded, the informal transaction costs, and the value of the risk taken by the company in investing in the partnership. The last of these could be important for medium-sized timber companies, but less so for large ones. Land rents and the value of existing trees that would have to be cleared were also not taken into account, nor were the risks to tree growers should the program fail.

CONCLUSIONS

The biggest challenges in establishing timber plantations in Indonesia have originated in overcoming the social conflicts with people living inside concessions and in the areas surrounding the plantations. Partnerships have provided opportunities for the companies to accommodate local communities' involvement. However, the challenges are quite complex and the long-term viability of partnerships depends on companies' efforts to make provision for continuing and dynamic changes.

The partnerships provide a more promising future for implementation to succeed than in previous government driven initiatives, because the schemes' initiatives emerged from companies' own needs for a scheme to accommodate local concerns but were still within the companies' objectives to produce timber. In the short-term, companies would not gain economic benefits from the amount of wood produced under partnerships, but more by sharing the risks (and benefits) with local communities in establishing timber plantations. Immediate partnership benefits have been minimising the social risks for securing long-term operational activities by resolving conflicts on claimed lands inside plantation areas, creating a starting point to establish good mutual relations between the company and the local people under formal contract agreement, and recognising various local land rights. In

the long-term, timber produced from partnership areas could potentially become a reliable source for the company, while transferring the benefits to local tree-growers.

For tree-growers, in addition to the shared financial benefits of harvested timber in the long - term, the immediate benefits from the schemes they enjoy are clarifying land status, productive use of under utilised lands, working opportunities as paid labour inside plantations, creation of seedling areas, and even the opportunity to collect seeds from the mother trees and sell them to the company, having access to the company's social funds and food crop credit assistance, and clearer boundaries between community lands. Among stakeholders, NGOs and the government were identified as those who are not involved directly in the partnership arrangement, but potentially have significant roles to play in facilitating the partnerships to be mutually beneficial for both companies and local tree-grower partners. Companies mostly have limited expertise in dealing directly with communities; one effective approach is to collaborate with an NGO to facilitate different processes in initiating and implementing partnerships. Roles of credible NGOs with advanced experience in facilitating the negotiation process/conflict mitigation are yet to be further explored in partnerships.

FEATURES FOR LONG-TERM VIABLE PARTNERSHIPS

Communities and companies need to understand each other better. This was not often the case partly because of the limited experience of companies in engaging with local communities. Suggestions for improving implementation and direction in the future are given below.

Commercial feasibility and viability

To be more effective in the long term, the arrangements must be genuinely mutually beneficial to both parties. This is essential for securing company investment, as well as the long-term commitment of the tree growers. Important features of the arrangements include:

1. A legal contract with a processing company is important for securing a market for the timber produced by the tree-growers (e.g. the WKS and Xylo schemes).
2. Fair accounts of the inputs of both parties are needed to define the benefit sharing agreement and prices paid to the tree-growers. This equity should be based on shared values and reflect the contributed inputs and the stake invested by each party to the agreement as discussed earlier (see the section on **Challenges to commercial viability**).
3. Better cost management should be an essential part of small-scale timber plantation management. From the case study analyses, it was clear that crucial cost items, such as transportation and transaction costs (the costs associated with community organisation,

social funds and seeking local government support) were not well monitored or managed. Moreover, the major costs in every scheme varied, depending on the partnership arrangement, making it difficult to draw general principles.

4. A long-term reinvestment strategy should be an essential part of an agreement, together with management plans to maintain the commercial viability of the partnerships. One example is the current WKS scheme whereby over a 35-year period the ratio of the share holdings will be reversed from company-dominated (80:20) to a cooperative-dominated (35:65). Ideally, growers should become independent managers of these small-scale plantations.
5. To secure the tree-growers' long-term commitment, the factors that could influence them to break a contract need to be identified and managed. The factors include: unfair and unprofitable revenues from the first harvest; unsecured long-term management rights over the land; and ineffective institutions involved in representing the tree-growers' interests during negotiations with the company.

The provision of income-earning opportunities during the grace period should take into account the high opportunity costs to developing the land for timber production, which means that a company has to provide higher income options, or in the condition of limited other options for earning income (e.g. Finnanara and some WKS areas). Our field observations showed that replacing a community's long-term land-use practices by introducing new crops was undesirable and mainly in the case of Finnanara schemes had wasted the company's funds on unsuccessful programs. For cost-effective investments, a proper community-needs assessment survey should be carried out during the feasibility study, and the local socio-cultural conditions and needs are taken account of in the final agreement.

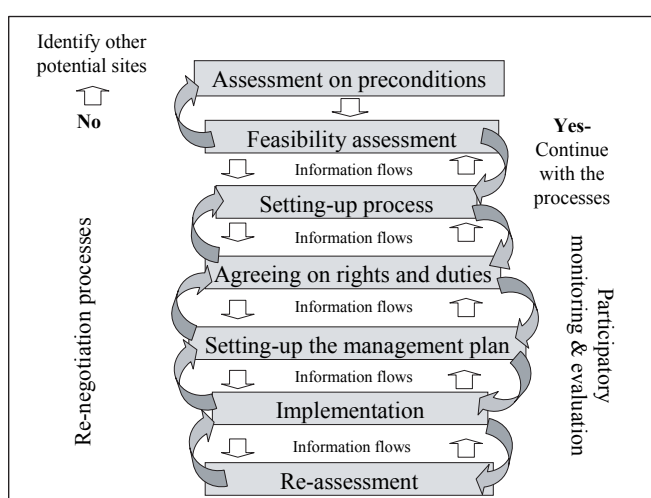
To increase the capacity of company staff, and to bridge the communication gap between company and communities, it may be advisable to involve an independent third party with the requisite skills and experience in working with communities. This would simplify the company's role and overcome the problem of the inadequate expertise in the company to build trust and establish good relations with local communities, and mainly to empower community organisation in levelling the position of two parties. The costs of third-party involvement should be carefully assessed against the corresponding benefits. The third party could assist local tree growers to develop capacity and improve partnership skills.

Maintaining partnerships under a long-term contract

To maintain partnerships under a long-term contract, arrangements should be flexible enough to adapt to changing socio-economic conditions. To cater for unanticipated changes in circumstances, elements such as

transparent information flows, participatory monitoring and evaluation, and the option for renegotiation should be part of the different stages involved in initiating and implementing the partnerships (Figure 1).

FIGURE 1 *The continuing and dynamic processes in mutually beneficial partnership*



Phase 1: Assessment of existing situation

At this stage, it is essential to conduct a participatory needs assessment to explore whether local communities are interested in becoming partners, to identify local social structures and institutions, financial and economic constraints, and the legal framework and related government regulations and policies. It is important to identify overlapping tenure rights and claims to land to prevent future conflict.

Phase 2: Assessment of feasibility

On the basis of the findings from the pre-feasibility study, more detailed and systematic technical, economic and social feasibility studies should be conducted to serve as a basis for discussions with the potential tree-growers.

Phase 3: Setting-up process

This phase includes raising awareness of the consequences and risks of joining the partnership, and undertaking a participatory process to design the form of collaboration and discuss the content of the agreement. The risks could be estimated from opportunity costs to labour and lands (Cairns 2000).

Phase 4: Agreeing on rights and duties

The agreement should reflect a fair and agreed arrangement for compensating the key stakeholders, based on their respective investments as envisaged in the project.

Phase 5: Designing a management plan

The agreed contractual arrangement should then be translated or transformed into management and working plans. The tree-growers' involvement in this phase is particularly important.

Phase 6: Implementation stages

During implementation of the management plan, the tree-growers usually evaluate whether their company partner is fulfilling their side of the agreement. Failure to do so can result in early failure of the venture.

Re-assessment

After some period of time, both parties may want to reassess the partnership arrangement to improve the planning and execution during the remainder of the contract.

From the analysis of these case studies, one major challenge is to clarify the roles and contributions of the government at central, provincial, and district levels, especially if these company-community partnerships are to become a way forward in the development of the timber industry in Indonesia. This includes developing a conducive policy and institutional framework that is consistent with other forestry policies, and developing effective instruments for inter-sectoral coordination of the management of forest land.

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Appendix 1 Verifiers defined for each indicator used in assessing the partnership schemes for each stakeholder group

I. Management principles

Management: Principle 1. Criteria 1. Indicator 1a.

| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
|--|--|---|--|--|
| Involved in the setting-up process since the beginning | Provides opportunities for its partners to involve in the setting-up process | Facilitate the setting-up partnership scheme (clear regulation and framework for the implementation of the partnership) | In their capacity, third parties provide significant support to the initiation of the partnership scheme | None of the community members against the partnership initiative |

Management: Principle 1. Criteria 1. Indicator 1b.

| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
|---|---|---|---|----------------------------|
| Written agreement, on rights and responsibilities, does exist, and understood clearly by tree growers | Operational or technical guidelines are written in the language or form that are common to tree growers | Concerned government agencies be able to facilitate the communication among key stakeholders in ensuring a wide and deep understanding of the agreement | NGOs or local institutions be able facilitate the communication among key stakeholders in ensuring a wide and deep understanding of the agreement | Not applicable |
| Tree growers are involved from the beginning in the decision making process | | | | |

Management: Principle 1. Criteria 1. Indicator 2a.

| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
|--|--|--|--|--|
| Written management plan exists and understood clearly by individual tree growers | Management goals and plan are defined with the other stakeholders in ensuring effective implementation | Government (local) is well informed with the management plan | The management plan recognises and anticipates their roles | Their concerns are accommodated in the management plan in ensuring minimum negative impacts to wider Communities non growers |

| Management: Principle 1. Criteria 1. Indicator 2b. | | | | |
|---|--|---|--|--|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Tree growers are contributing significantly to the implementation of management plan effectively, and they receive adequate technical and financial information | Company ensures the management plan is adaptive to accommodate inputs from other key stakeholders for effective implementation | Policy framework and regulations are conducive for effective implementation of the management plan | Concerned local institution(s) has the copy of management plan | Minimum negative impacts of the implementation to non growers |
| Management: Principle 2. Criteria 1. Indicator 1a. | | | | |
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Rules, guidelines and sanctions are agreed and well understood | Practical guidelines are in place and well understood by company field staff | Rules and enforcement are in place at all levels | Rules, guidelines and sanctions are well understood | Existing institutions, rules, control and sanctions |
| Management: Principle 2. Criteria 1. Indicator 1b. | | | | |
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Codes of practice are agreed and well understood | Codes of practice are documented and well understood by field staff Received certification of sustainable management | Government has a mechanism to control the implementation codes of practice | Independent control by NGOs or other mediator on the implementation of codes of practice The agreement ensures that the brokers or contractors do not drive the negotiation process for their economic benefits | Communities non growers have mechanism to control the implementation of codes of practice |
| 2. Economic principles | | | | |
| Economic: Principle 1. Criteria 1. Indicator 1a. | | | | |
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| The economic capacity to produce and manage the resources is improved and maintained | Economic scale to produce and process the resources increases the company's comparative advantage in the business | An economic contribution from forestry plantation under partnership to the regional economic development | Certain proportion of people involve in the activities generated by partnership scheme | Mechanism, for fair compensation from losses incurred by local Communities non growers, does exist |
| Opportunities to work and be trained by the company without discrimination | Less economic and other risks (e.g. forest fires) in establishing plantation | Employment rates increase | | There is no significant conflicts |
| Increased assets for savings and future generation (e.g. wood stocks) | | The condition of forest security is improved thanks to the partnership schemes (e.g. fewer illegal logging cases, forest fires) | | Public infrastructure for local Communities non growers are provided and maintained |

| Economic: Principle 1. Criteria 1. Indicator 1b. | | | | |
|---|---|---|--|----------------------------|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Buying agreement with the company partner does exit and well understood | The company owns processing plants The company has a link with other processing companies (long-term contract) | Conducive application of taxes for marketing and transportation | Generated income opportunities for middle- person in the marketing chain | Not applicable |

| Economic: Principle 1. Criteria 1. Indicator 1c. | | | | |
|--|--|---|--|--|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Subsistence and commercial needs are met | Company is able to help the tree growers in generating incomes besides ensuring the continuity of wood supply for the company. Company has better access to the market (e.g. certified timber) for a better price Company is able to enter the carbon market/option to have incremental benefits | Diversity of production from forestry and agriculture | Incomes are available from economic activities generated indirectly from partnership schemes | Sustainable wood supply for local uses |

| Economic: Principle 1. Criteria 1. Indicator 1d. | | | | |
|---|---|--|---|--|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| The partnership helps growers to become independent | The company does not responsible for financial assistance over the time | Government receives continues revenues from tax or levy on produced timber | Various economic opportunities are stimulated | Less competition between tree-growers and non tree-growers in using the same land/forest resources (free-access forests) |

| Economic: Principle 1. Criteria 2. Indicator 2a. | | | | |
|---|--|--|---|--|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Local Communities non growers are encouraged to grow timber on their own land financed by a portion of the revenues | There is a profit margin to continue the partnership through well planned reinvestment mechanism | Government receives continues revenues from tax or levy on produced timber | Various economic opportunities are stimulated | Less competition between tree-growers and non tree-growers in using the same land/forest resources (free-access forests) |

| Economic: Principle 1. Criteria 2. Indicator 2b. | | | | |
|---|--|---|---|---|
| Tree growers | Company | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Practising multi-cropping | Planting different timber species | A range of timber alternatives and other products (e.g. fruit trees) | Numbers of brokers/buyers for different productions | Not applicable |
| | There is a grading system for different timber quality | Incentives for the development of down stream industries | Exiting small scale down stream industries at local and regional levels | |
| Economic: Principle 1. Criteria 2. Indicator 2b. | | | | |
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Flexibility to sell the products to other buyers (could include also non-timber products) included in the agreement | The ability to buy timbers from growers at a competitive/fair price; sufficient supply of timber | Less taxes and fees are charged to timber marketing; the regulation on marketing is less complicated | Numbers of buyers | Regional spill-over effects |
| Economic: Principle 2. Criteria 1. Indicator 1a. | | | | |
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Understand their invested inputs, financial and economic risks of joining the partnership; and these are taken into account in the agreement resulted from negotiation | Risks in making investment on partnership schemes are taken into account | Facilitates the participatory process in defining a fair benefit sharing agreement | Not applicable | Not applicable |
| Economic: Principle 2. Criteria 2. Indicator 2a. | | | | |
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| The contribution of tree growers to reduce the control of forest resources are recorded | The investment in capital, technology, know how (e.g. technical assistance) are well recorded | Contribution to the infrastructure development is taken into account | All input records are available to be assessed by the third parties (e.g. NGO) | Roles of local institutions in law enforcement/ control mechanism on partnership schemes are taken into account |
| A fair ratio of work forces is taken into account | | Contribution of various government agencies (e.g. police, legal justice/services) is taken into account | | |

| Economic: Principle 2. Criteria 2. Indicator 2b. | | | | |
|--|--|---|--|---|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Access to market information is available | Companies ensure that the information is available to their partners | Government (most likely is the local government) be able to monitor the information | NGOs or other local institution are exist in ensuring transparent information is continually available | Local institution(s) has access to the information and be able to monitor |

3. Social principles

| Social: Principle 1. Criteria 1. Indicator 1a. | | | | |
|--|--|--|---|--------------------------------------|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Minimum conflict with the companies over land boundaries | The approach for land acquisition is acceptable to the local communities non growers | Government recognises various tenure ship arrangement for tree growers | The activities of brokers /contractors are not in conflict with the overall socio-cultural values | Socio-cultural values are maintained |

The local inherited system recognises the long-term agreements

| Social: Principle 1. Criteria 1. Indicator 1b. | | | | |
|---|---|---|---|---|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Status of long-term tenure/rights are included in the agreement | Industries recognise the status of tree growers long term tenure rights | Government regulation on tenure is not in conflict with the long-term local tenure and rights | Mediators (e.g. NGOs) are able to facilitate any conflicts on tenure and rights | Local institutions are able to enforce rules and sanctions if necessary |
| | | Rules are enforced for any violation on tenure and rights | | |

| Social: Principle 1. Criteria 1. Indicator 1c. | | | | |
|--|--|--|--|--|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Tree growers' cultural values are not degraded (e.g. planting the local species) | Company recognises and respects different local perception | Facilitating the recognition of tree growers' socio-cultural needs | Not applicable | Partnership scheme recognises the traditional rights and gender issues |

| Social: Principle 2. Criteria 1. Indicator 1a. | | | | |
|--|---|--|---|--|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Agreed and understood the existing conflict resolution mechanism | Conflict resolution mechanisms exists and company provides opportunities for renegotiations | Local government role as a legitimate mediator in the conflict resolution mechanism is respected | Roles of third parties (e.g. NGO) as the mediator are respected | Mechanism for wider Communities non growers to address their concerns exists |
| | Field staff can speak in the local language (understand the local perception) | Access to the legal system of conflict resolution | | |
| | Adequate professional staff who are experts in community development | | | |

| Social: Principle 1. Criteria 1. Indicator 1b. | | | | |
|--|---|--|---|--|
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Status of long-term tenure/rights are included in the agreement | Industries recognise the status of tree growers long term tenure rights | Government regulation on tenure is not in conflict with the long-term local tenure and rights | Mediators (e.g. NGOs) are able to facilitate any conflicts on tenure and rights | Local institutions are able to enforce rules and sanctions if necessary |
| | | Rules are enforced for any violation on tenure and rights | | |
| Social: Principle 1. Criteria 1. Indicator 1c. | | | | |
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Tree growers' cultural values are not degraded (e.g. planting the local species) | Company recognises and respects different local perception | Facilitating the recognition of tree growers' socio-cultural needs | Not applicable | Partnership scheme recognises the traditional rights and gender issues |
| Social: Principle 2. Criteria 1. Indicator 1a. | | | | |
| Tree growers | Industries | Government | Other third parties (e.g. NGO, brokers) | Communities non growers |
| Agreed and understood the existing conflict resolution mechanism | Conflict resolution mechanisms exists and company provides opportunities for renegotiations | Local government role as a legitimate mediator in the conflict resolution mechanism is respected | Roles of third parties (e.g. NGO) as the mediator are respected | Mechanism for wider Communities non growers to address their concerns exists |
| | Field staff can speak in the local language (understand the local perception) | Access to the legal system of conflict resolution | | |
| | Adequate professional staff who are experts in community development | | | |