Company-community deals in South African forestry

This section charts the evolution, impacts and current strengths, weaknesses, opportunities and threats of each of the main types of 'deal' between companies and community-based individuals and groups in South Africa. The aim of the analysis carried out on these deals is: to understand the degree to which small-scale outgrower schemes and community-based forestry projects can contribute to local development and promote socially and environmentally sustainable private sector forestry. Various approaches can be considered 'partnerships' in the sense of a 'contract between persons engaged in any business' – but the extent to which we are looking at 'partners as equals' is a key question. Hence, we stick with the term 'deal' until a genuine partnership is evident. In examining the strengths and weaknesses of the different deal mechanisms, other key questions we seek answers to include:

"I go for gum, my husband was interested in sugar, therefore we have both but when we look at our income I always laugh at him."

Project Grow member, Ngodweni – quoted in Cairns 2000

- *Why do companies, outgrowers and communities enter these deals, or choose not to?*
- *What alternatives exist to joining outgrower schemes and community-based deals?*
- *What are the conditions of outgrower contracts and community-company agreements?*
- *What are the impacts for the companies, for livelihoods and the wider economy?*

Firstly, we examine briefly the 'social responsibility spending' of companies – which is highly important in terms of company operations, but is not directly focused on fostering partnerships with communities. Secondly, we consider contract arrangements between companies and individual small-scale outgrowers, which have been evolving in South Africa since the early 1980s. Thirdly, we turn to the recent initiatives which seek to create a mutually beneficial relationship between a company and a whole community as the partner entity. Community-based deals are not well established in the forest sector, although there have been various experiments and plans made in recent years.

"The outgrower scheme gives us the last 10% of the fibre we need, which is much more economically important than the first 10% – because it allows the huge economies of scale to kick in"

Sappi manager, Pietermartizburg, 1999

5.1 Relationships without partners – corporate social responsibility investments

The major forestry companies in South Africa have for years sponsored a wide variety of small projects designed to improve conditions and relations with communities in or neighbouring forest areas or industry. Indeed the major companies have served as the dominant social and development service providers in some areas. For example, the FOA estimate that there are some 15,000 pupils in schools funded by the industry. Projects and schemes run by Mondi, Sappi and SAFCOL include:

- Grazing schemes – under eucalyptus in Zululand for example, Panicum grasses thrive and can support considerable use for grazing
- Managed access for hunting and harvesting thatch, building materials, mushrooms and medicinal plants
- Intercropping groundnut schemes and vegetable gardens
- Schools and literacy classes
- Clinics and creches
- Recreation and tourism management – hiking, biking, camping, fishing, rafting
- Wood and stone ornamental carving markets
- Sewing machines and classes for women's group

These projects are usually run by the company's human resources department or 'community liaison section' whilst the majority of the company personnel have little link with them. In some other cases, such as those in the fast-growing forest-linked tourism sector, these projects exercise considerable company finance and personnel. SAFCOL has made a major investment in a joint venture with local communities and local labour at Lebanon farms in the Western Cape. Here it has been recognised that fruit and wine production is a more viable land use than the forestry that had been subsidised for years on the land, and SAFCOL has spent R5 million developing the fruit and wine joint venture as an 'empowerment exercise'.

In other areas social spending can be seen as essential tool for companies to manage social risk and be able to maintain their forestry activity. One company manager said "we have to work with communities, they hold us to ransom" with threats of fire and sabotage. In some areas considerable efforts are needed to manage conflicts over access and grazing in plantations. In other areas the companies have acknowledged that some original inhabitants of the land have strong rights to the land and have agreed to undertake 'voluntary withdrawal' – and handover – of certain plantation areas.

From the point of view of both companies' long term social risk management and local people's chances of real empowerment, the potential of more long term mutually beneficial relationships with their immediate neighbours is more important than the relatively short term social responsibility programmes mentioned above.

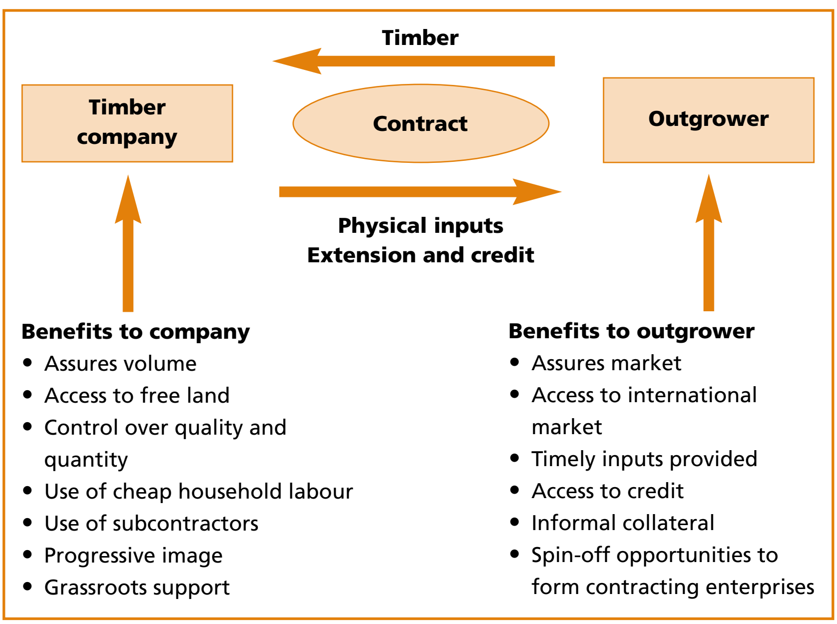
5.2 Outgrower timber schemes

In outgrower schemes a company provides marketing and production services to farmers to grow trees on their own land under purchasing agreements laid out in a contract. The South African outgrower schemes are in KwaZulu-Natal. The two main schemes are run by Sappi and Mondi, and we also draw on the experience of small grower support initiatives run by SAWGU and NCT.

Key features of the schemes

Estimates of the numbers of individual small-holders involved in some sort of tree-growing scheme with company support range from 11,300 to 14,800 with a total area of land planted from 25,500 to 37,800 ha. The variations in these estimates stem from differences in definition of who can be said to be involved in a scheme – as opposed to those farmers who grow trees independently (there are many more such independents).

Figure 10 Outgrower timber schemes: the nature of the deal



Source: adapted from Cairns 2000

The Sappi and Mondi outgrower schemes are based on the system of contract farming. Growers are provided with physical inputs, loans and extension for the establishment and maintenance of small eucalyptus woodlots. In return they expect the harvest from all trees after a growing cycle of six years on the coast and seven years inland. Figure 10 illustrates the arrangement and the purported benefits.

In addition to the Sappi and Mondi schemes there are two other small-scale timber grower (SSTG) support schemes in Kwazulu Natal. Key features of the outgrower schemes are presented in Table 12.

Table 12 Key features of outgrower schemes in KwaZulu Natal (KZN)

Feature/ Statistic	**Mondi – *Khulanathi***	**Sappi – Project Grow**[7]	**South African Wattle Growers Union – *Phezukomkhono***	**Natal Cooperative Timbers**
Objective	Company business venture	Company social responsibility programme	Union members support scheme	Cooperative members support scheme
Products to Mill	Eucalyptus fibre to Richards Bay mill	Euclyptus fibre to Mandini (Sappi) and Umkomaas (Lima) mills	Wattle bark for tannin extract factories in KZN midlands	Wattle bark in midlands and eucalyptus fibre on coast of KZN
Year Started	1988	1983 (Lima started 1989)	1993	1994 (when formalised – origins in 1970s)
Number of Growers	2,854	7,134 (3,134 + 4,000 Lima)	600 members (out of 2801 total small grower members) in scheme	52 share owning (A Class), 700 ordinary (N-class) members in scheme
Average Plot Size (Ha)	1.5	2.7 (0.8 Lima)	7.5	5.3 to 10.6 2.7 (0.8 Lima)
Hectares	5,904	9,031 + 2,996 Lima = 12.027	4,500 ha	4,000-8,000 ha
Volumes (Tonnes / year)	40,000	56,000 (9,000 + 17,000 Lima)	Not known	Not known

% Mill throughput	3.2%	3% (1.5% Lima)	5% of bark	Not known
Features of Contract	Company encourages use of small contractors. High input levels – high fertiliser and use of clones. Use best sites. Company has removed clause on rights to coppice. Company markets scheme aggressively	Company encourages use of household labour Lower input levels – low fertiliser, seedlings Use steeper slopes Company retains rights to coppice Company promotes through word of mouth	Contract provides inputs for establishment of wattle plantations – fencing wire, seed, fertiliser	Attempt to find highest prices for members Support co-operative development and depot construction to meet A-class requirements (sustainable volumes)
Loans/Credit	Loans with 10% (simple) interest on loan	Smaller loans (than Mondi) with no interest	Inputs provided at 8.5% interest. Loan includes group life and fire insurance	R100,000 loan for all small grower members
Grower Representation	Outgrower associations for administrative purposes only – little leverage with company	Outgrower associations for administrative purposes only – little leverage with company	Small growers have 15% representation on executive bodies of SAWGU via 18 committees. Gives shares in tannin extract factories to growers	A-class members have preferential allocations, bonus prices and representative rights in NCT shareholder meetings

Sources: Cairns 2000 and Zingel 2000

7 The SAPPI scheme is administered by a contract extension agent (Lima) on the Natal South Coast. Lima is a non-governmental rural development organisation.

Company motives for initiating the schemes

Sappi managers note that the company initiated *Project Grow* as a social responsibility programme, whilst Mondi managers state that *Khulanathi* was started as a business venture. This initial difference in emphasis seems to explain some of the differing features of the schemes noted in Table 12.

However, accessing land close to the pulp mills has clearly been a major rationale for both schemes. This land falls under communal tenure and was previously inaccessible to purchase or lease agreements. The need for this land should be seen in the light of the worldwide demand for soluble pulp in the 1980s, combined with tensions with the sugar industry over land in KwaZulu-Natal. Furthermore, most communally owned areas in the coastal zone have a very high potential for forestry (with Mean Annual Increments of 25-30 m^3/ha/annum).

The costs of administering the schemes per tonne of fibre produced appear to be higher than those incurred per tonne from commercial plantations, although these costs (at least in Mondi's case) are covered by an unspecified higher margin from the timber sourced from the schemes. Since land rental must also be paid on commercial plantations it is likely that considerable savings are being made from the schemes. Furthermore, the outgrower system generates the additional fibre supply needed for maximisation of economies of scale.

Two other motivational factors can be noted on the company side. Firstly, the schemes should be seen within broader objectives to contract out forestry operations. Secondly, the schemes present a progressive image of the companies and may provide some political benefits.

Through different origins, the SAWGU and NCT initiatives have reached somewhat similar positions. They were formed in response to the 1994 Government of National Unity Reconstruction and Development Programme (RDP) and aimed to integrate small-scale farmers into their respective organisations. The programmes have formalised relationships by providing small farmers with representation at executive levels. Benefits to the companies are probably more political than economic, yet small growers do contribute significant volumes (about 5%) of wattle bark and timber.

Household motives for joining the schemes

Table 13 outlines the incentives and disincentives for households joining the schemes – based on quantitative studies of small grower timber schemes.

New growers join the schemes primarily to obtain cash at harvest – often with a bulk expense such as building, education, or pension supplement in mind (see Box 2). A small number of new growers (possibly 5%) join as a means of securing tenure. This is particularly important for widows whose rights to land become insecure after the death of their husbands.

Box 2 Lessons learned by companies from outgrower schemes

The following lessons were noted by operational level company managers in this study:

- *Strong field staff* giving sound technical advice are crucial
- *Good administration* – saves money. SAPPI abandoned paying by cheque because it required both company staff and growers to travel huge distances. SAPPI now insists that growers have bank accounts and transfers are made electronically. Mondi cannot convince many farmers to have bank accounts and issues cheques which can be cashed at local stores
- *Intercropping* with legumes in first two years gives growers income in early stages and improves soil fertility
- *Consolidate* rather than spread too thinly across areas – transport costs and other costs are prohibitive if volumes per area are too low
- *Strong relationships with growers* are vital – especially after the third year when money for weeding ceases, when firebreaks must be maintained and trees should not be felled early. Visit growers twice a year, use grower meetings and notices in shops, bottle stores and local depots
- *Transparency* is essential – e.g. allocation systems must be explained in terms of world supply, reasons for cutbacks must be understood by all concerned.
- *Management needs change over time* – in the early years it is focused on silvicultural extension, later on managing timber supply e.g. quota systems, contractors availability and pricing
- *Reputation* rather than heavy marketing spreads the word

There have been independent small growers since the early 1960s, in areas of high potential, close to the mills. This indicates that small growers can operate with little or no financial or technical support from timber companies – and that small grower production would not necessarily collapse if the schemes were withdrawn.

Farmers who join the NCT co-operative structure may benefit from higher returns as the co-operative attempts to find the highest prices for its members' product. NCT also tries to cushion the price drop to members in times of oversupply on the world market. These more recent moves by NCT represent significant competition to the deals available to growers in the longer established Sappi and Mondi schemes. Support for small grower co-operative action may also have wider developmental benefits. However, these advantages may be eroded by relatively poor production support (skills training and credit advances) and marketing support (harvest and transport), which impacts on net profits achieved by the growers.

Table 13 Incentives and disincentives for outgrowing

Incentives	Disincentives
Major incentive (80 to 90% of respondents): to obtain cash income at harvest – trees seen as a form of savings (some respondents mentioned that trees are better than cattle in this regard) **Minor incentives** (up to 5% of respondents): ● To obtain the annual payments ● To obtain fuel and sell wood to neighbours ● To secure their rights over unutilized land ● Ease of management compared with food crops ● Reliability of yield ● Persuaded by an extension officer or neighbours ● Land was not suitable for other crops	**Major disincentive** (80 to 90% of respondents): small landholdings **Minor disincentives** (up to 5 % of respondents): ● People wanted to see the real profits from trees before they committed themselves ● The long growing cycle ● Fear of cattle damage ● Preference for other crops (sugar, vegetables, fruit trees) ● Lack of household labour (too busy with other crops or too old to plant) ● Fear of jealousy among neighbours ● Concern for what would happen to the market if the timber companies no longer needed trees ● Suspicion of timber companies motives (stealing land) ● Concern about the inability to change once trees are established

Source: adapted from Cairns 2000.

Box 3 An outgrower's story

Mrs M's husband was interested in planting trees ever since he worked on a farm in Vryheid. He started picking up seedlings and planting around the home long before the Sappi scheme, but in a very haphazard way. He died in 1973. The Sappi forester introduced the scheme at a Tribal Authority meeting and Mrs. M. introduced herself to him at a school meeting. She joined to try to earn money for her family as they had no other source of income. The Sappi forester emphasised that they should not use land where they plant food. They should use steep areas only. Mrs. M. was the first to plant in the Ingodweni area. She started an association of six other women. They had to get forms signed by the Inkosi and he agreed on condition that they plant on their own properties only. Their association boomed. Only women were allowed to join because they do not trust men with money. Her first planting was 25,000 plants and the second was 37,000 plants (about 3 hectares in all). They believe that many contractors are dishonest. Truck drivers are generally suspected of off-loading small-grower timber on the way to the depot. The association planned to get their own transport for their timber, but violence in 1993 disturbed their plans. Mrs. M's house was burnt down in 1996 along with six others. This may have been because of jealousy (she has bought all her furniture, a stove and a fridge from profits), but there is also a long-standing faction fight in the area. Her son has battled to get a job. "I bought him a chain saw and he is harvesting for other people right now". *(Project Grow member in Ingodweni area)*

Source: adapted from Cairns 2000

Grower and non-grower characteristics

Even highly vulnerable, marginal households join the outgrower schemes – since advance payments allow labour deficient and very poor households to use small scale planting and weeding contractors. The exception is those households who do not have sufficient land holdings. These households may comprise youth who have moved away from their parents' small-holdings or newcomers to an area. The schemes may have a highly detrimental effect on these households since they effectively lock up previously unutilised land for an indefinite time. Table 14 outlines the results of an interview survey on sources of livelihood amongst those who join the schemes.

Box 4 An independent grower's story

Mrs K. moved to the Mbonambi area in 1949 to get married. In 1955 people living in her area were threatened by government officials with forced removal allegedly to stabilize dune encroachment from the nearby Richards Bay coastline. "This was just a trick to move us as we knew nothing about this beach sand or of planting trees". The K. family gained permission from the Tribal Authority to contest the removal and eventually an agreement was reached that community members could stay if they planted trees in the area. The family was taught to plant trees by a local farmer who had previously worked on white farms. By the early 60s it was time to harvest the trees but no-one knew where to take them. The only mill at that time was the SAPPI mill at Mandini. They were surprised to find their trees were valuable.

Problems only started after Mr K. died in 1981. Mrs K. is now a pensioner and her daughters are unemployed and receive no maintenance income. Most of the money comes from trees. The family does all operations (planting, weeding, felling, stacking and marking) unless their chainsaw is broken. She also buys other peoples forests from time to time and takes charge of transporting them to the depot. She is considering joining one of the small grower schemes because there are rumours that the local weigh bridge will stop taking non-contracted timber. *(Independent grower, Mbonambi)*

Source: adapted from Cairns 2000

Households in all wealth categories join the schemes as growers. On the other hand, weeding and firebreak contractors and chainsaw operators appear to come from highly vulnerable households, while the transport contractors interviewed all had formal wage earners in their households.

Distribution of risk

Outgrowing can be seen as a way of allocating risk between the grower – who takes the risk of production – and the company – which takes the risk of marketing. The relationship between the two parties is defined by the contract. Box 5 describes how the outgrower contracts work.

In effect companies do take on some of the risks of production since they do not act against loan defaulters. Mondi probably takes somewhat more risk than

Table 14 Sources of livelihood of those who join the schemes (interview sample = 31)					
Type of livelihood source	**Marginal sources**	**Vulnerable sources**		**Semi-vulnerable sources**	**Reliable sources**
	Agriculture or non-farm petty commodity	Unreliable remittance + agriculture	Pension or state welfare + agriculture	Two or more vulnerable sources + agriculture	Wage labour or reliable remittance
Contracted growers	4	3	5	1	5
Non-contracted growers	0	1	1	1	1
Weeding and firebreak	2	0	0	0	0
Chainsaw contractors	3	0	1	0	0
Transport contractors	0	0	0	0	3
Percentage total	34%	14%	24%	7%	28%

Notes to table: Where there is a mix of sources of income or where the main income is derived from formal wage employment (25% of households in KwaZulu-Natal), livelihoods are less vulnerable. However, many households rely solely on welfare payments (7%) or unreliable remittances (12%) for income. Even more vulnerable are those who have no access to formal sector opportunities, or state welfare and rely solely on agriculture and non-farm petty commodity production (about 1%).

Source: Cairns 2000

Sappi because they encourage higher levels of inputs and advance larger loans per hectare. Growers' risks may be measured in terms of the opportunity costs of their land and labour. The SAWGU case shows that where terms have been negotiated with strong associations, growers place great emphasis on protecting their investments (fencing, fire and life insurance and provision to pay back early), and prefer to reduce the burden of interest on loans as soon as possible. However, in overall terms small growers still produce less than 5% of the KwaZulu Natal pulp mills' throughput, and grower associations are as yet weak. The balance of power is evidently still in favour of the companies.

Box 5 How outgrowing contracts work

Growers join and participate in the Sappi and Mondi schemes through the following steps:

Photo: Sappi Image Library

More than half of the growers in the outgrower timber schemes are women

- A farmer approaches an extension forester to request to join. The forester accompanies the farmer to see if the site is suitable in terms of general geographic location, soil, rainfall, slope and size of land, and conservation status of vegetation to be disturbed. Initially, Mondi set a lower limit of 1,000 spots (tree plantings) which means the site must be at least 0.6 hectares. By 1992, Mondi had lowered this figure to 500 spots;
- Each farmer must have the approval of the local traditional authorities before any work can take place. This is mainly to ensure that farmers do not plant on land allocated to other households. The local government Agricultural Officer is also notified;
- Application is then made to DWAF for permission to plant. Blanket community permits based on quaternary catchment information have recently been approved;
- The forester then explains the operations that need to be done on each particular site and the correct timing for each operation. A contract is then signed by the grower and the company;
- The contract makes provision for an advance to be paid by the company to the grower after he or she successfully completes each operation. In the Mondi scheme the grower is free to keep this money, hire local people to do the work, or have the company arrange for a local contractor. Sappi discourages the use of planting contractors;
- Normally, growers only carry out a subset of operations, which includes marking, ploughing, pitting, planting, fertilising, weeding and fire protection.
- The money paid out to the grower for each operation is essentially a loan advanced against the value of the final product. The grower may also take an additional annual advance against the final value of the crop. Sappi provides interest free loans, Mondi charges 10% simple interest. Amounts advanced are deducted from the final payment, made out to the grower at the time of harvest. The companies provide extension free of charge and fertiliser and other chemicals at bulk cost price. Sappi provides free seedlings. Mondi promotes the use of clones. These are considerably more expensive, but Mondi believes that the cost is justified through the growth rates that can be achieved.

Source: Cairns 2000


Photo: Sappi Image Library

Households tend to have insufficient land to make a full time business from tree growing, but many obtain vital income from the outgrower schemes

Economic returns and livelihood impacts for the outgrower

Small woodlots on virgin ground using clonal varieties produce equivalent and sometimes even better returns than the industrial plantations, since the proportional effect of edge trees – which capture more light, heat and nutrient – is more significant than in the blanket planting regimes. However, small average sizes of land tend to militate against full time enterprises centred on outgrower forestry. Table 15 illustrates the direct financial returns for a household participating in an outgrower scheme (in this case Project Grow).

The averages in Table 15 mask great variation. Some growers fell too early in order to obtain cash when needed for urgent situations or when they become alarmed at the build up of interest. Management practices – site preparation, weeding, fire and stock protection, felling at the correct time – vary considerably among growers, significantly affecting yields and net profits. Some growers have been encouraged to plant in areas with insufficient access roads and now face high costs for short haulage. Other growers have been given assistance by the company in arranging contractors at reasonable rates, which significantly improves net profits.

With a national 'abject poverty line' calculated at R750 per month it is estimated that the outgrower schemes contribute, under average management, from 12% to 45% of the income needed for a household to remain just above this line (with the average figures listed in Table 15 the figure for one hectare is 17%). The schemes cannot alone take households out of poverty because access to land in communal areas is limited. The livelihoods of outgrower households remain vulnerable, even if production risks are not also taken into account.

Competition with food crops for land or labour does not appear prevalent, as yet, because trees are generally planted on land unsuitable for food crops and operations are carried out at times in the year when agricultural activities are minimal. This situation may change as households increase the area under trees. However, the schemes do pose an opportunity cost for potential high-value cash crops, considering in particular the costs of destumping. But as long as the enabling policies and support systems for such crops with comparative advantage remain unrealised in KwaZulu-Natal, then so does this opportunity cost. In any case, such comparative advantages of crops are difficult to assess in small farm systems.

There is evidence that outgrower woodlots have depleted water sources in some areas. In addition to the direct impact on the natural asset base, this raises labour demands as women must walk further each day to fetch water.

Table 15 Average household financial returns from outgrowing (Sappi Project Grow)

Assumptions

Yield (Sappi average)	133 ton/ha	Indirect Costs	
Local depot price	R140/t	Tractor water	R418
Harvest & short haulage	R45/t	Clones	R150
		Fertiliser	R144
			R1012
Establishment costs 1st yr		Maintenance costs 2nd yr	
Direct Costs		Hoe rows	R81
Ploughing	R562	Advance	R73
Mark Pit	R22	Fire protection	R55
Planting	R53		R209
Blanking	R43	Maintenance costs 3-5th yr	
Manual water	R33	Fire protection	R55
Weeding (x2)	R81	Advance	R73
Advance	R74		R128
Fertilising	R36	Interest over 6 years	
Fire protection	R55	10% p.a. (simple)	R1415
	R959		

Calculation of net profit	Per Hectare
Gross profit (Yield x Depot price)	R18 620
Less average costs incurred	
Establishment costs (direct and indirect)	R1971
2nd year costs	R209
3rd – 5th year costs	R128
Interest	R1415
Harvest & Short haulage (Contractor costs x 108t)	R5985
Net profit (over 6 years)	**R8912**

Source: Cairns 2000

Box 6 Khulanathi 'Grower of the Year 1996'

The Z. family has lived in the Port Durnford area for many years. In 1992 two brothers of Mrs. Z. planted woodlots under the Khulanathi scheme. She told her husband about the scheme. Her husband went to see the forester at Esikhaweni who explained the terms of contract. It was easy for them to understand the system because they had grown sugar cane for many years. In 1993 her husband planted 2.1 hectares. A local tractor was hired from a sugar farmer by Mondi to prepare the soil (R2,000 to plough and disk for 2 hectares). The husband originally employed his wife, 3 daughters and neighbour's wife to weed the woodlot and paid them R10 per day to work in the land. His daughters later refused to work, since they wanted to be paid directly by Mondi. In 1996 they were awarded Khulanathi Best Grower of the region for the quality of their woodlot and fire-breaks.

After her husbands death the forest was registered in Mrs K's name. She feared that her husband's family would take back a portion of her land. In order to strengthen her claim on the land she planted two new woodlots of 0,8 hectare each in 1997. The first forest (2.1 hectares) was harvested in 1999. The total income from the forest was R52,483 (Mondi records) from 40 truck loads (372 tonnes). The Mondi loan repayment was R5,185 and the contractor cost was about R15,600 to fell and take the load to the depot (R42/tonne to fell, stack, mark, and transport about 15 km). She was paid R141 per tonne at the weighbridge. She therefore cleared R32,000 as profit. *(Khulanathi grower, Port Durnford)*

Source: adapted from Cairns 2000

Furthermore, contrary to what might be expected, the schemes do not significantly improve fuel wood availability.

Amongst some outgrowers there is dissatisfaction with being tied to supplying a single timber industry client. This is evident in the increase in those selling to the higher prices paid by NCT. The fact that there are independent growers in high potential areas, close to the mills, shows that small growers can operate without support from companies. There is some evidence that outgrowers would like the freedom to supply whomsoever they wish once the basic debts to the companies are honoured. After the first rotation some outgrowers can use their accumulated capital to finance the next rotation and then identify their own customers. This represents a change in risk which may be in the growers interests to accommodate.

Wider developmental impact of the schemes

The 'acid test' of initiatives designed to provide local development benefits (and we must bear in mind that Sappi and Mondi make few claims about their schemes in terms of local empowerment) is whether 'spin-off' development initiatives emerge, run by local people. There are a few, and these spin-off opportunities appear to be maximised in areas administered by Lima (labour-based access roads, agricultural depots and contractor development). This may be the major advantage of outsourcing administration to a professional rural development organisation.

Emergence of contractors servicing outgrowers

In comparison with the sugar industry, the timber industry has not yet provided major impetus for development of the necessary skills and capital accumulation for large numbers of small scale contracting enterprises. However, various types of contractor are crucial to outgrower schemes in KwaZulu Natal:

- *Planting and weeding contractors* are drawn from very poor households and are paid low wages (R20-R25/day). There are perhaps 60 planting and weeding contractors (in 6 groups). They allow labour deficient households (where adult members are pensioners, or migrant workers) to participate in the schemes as advance payments to growers cover the set rates charged by these contractors.

- *Chainsaw operators* may earn more (R35/day). Some (possibly former employees in forestry) have progressed to form labour teams. These operators may earn R6,000 per month above expenses, if there is sufficient work. There are perhaps 70 chainsaw operators currently.

- *Transport operators* organised by Sappi and Mondi charge reasonable rates to growers, but allegedly struggle to make a profit. Transport contractors have emerged mainly from local business and the sugar industry. There are about 40 short haulage transporters operating among small growers. In addition, Sappi uses 4 small-scale long haulage transporters.

Interviews with contractors highlight the need for business skills training in particular.

Box 7 Outgrower timber contributions to livelihoods

Household management of the returns at harvesting are diverse, with the contract holder usually investing in essentials such as school fees, buildings, building improvements and marriage payments or paying off or purchasing vehicles. Some develop secondary enterprises such as contracting or taxi transport. Use is made of early harvesting, at say 4 years, to meet short term cash needs, and the original planting material and coppice material may at times be used in well developed local secondary markets for building poles. These can get saturated.

Most household heads who have formal jobs remain in migrant wage labour or commute. Economic returns in relation to wage labour levels imply the need for growers to manage a minimum 3 ha on a rotational basis. Since the range of land holding sizes is wide, some growers manage a range of enterprises from a base in forestry outgrowing, and many expand into contracting or sharecropping, entering into informal lease agreements for the management of the stands and coppice with generally weaker households who cannot cope. Where holdings are very small, households struggle to realise any real returns, and some are thus beginning to hand their stands to the sharecroppers, so that they are at least guaranteed an agreed return. More entrepreneurial individuals have accumulated rights to develop up to 100ha in this manner.

Sources: Zingel 2000 and Ojwang 2000

Box 8 A chainsaw contractor's story

Mr. N. was originally from St. Lucia but following the death of his first wife he has been living with his second wide at Mfekayi. The food bill for his children is about R500 per month plus R500 for his second wife's family. He would like to grow trees but has no land. He has never approached the traditional authority for land but thinks that he would probably not get any because there is not much open space left in the area.

Mr. N used to work for SAPPI but was retrenched in 1993. With his small pension he was able to buy a chainsaw and begin contracting at Mfekayi. He now employs two men and 8 women at R15/day. He has trained these people himself. He is normally able to find work for 6 weeks out of 8 in Mfekayi and charges R25/tonne for felling. It takes about a week to fell one hectare. Whenever he finishes a job he reports to the weighbridge and the foresters then direct growers to him. At the end of the day after paying labour, petrol and repairs to the chainsaw, he does not earn much.

Mr N. suggested that Mondi could help contractors in the following ways:
- Provide short term loans (e.g. to fix the chainsaw if it breaks during a job)
- Help training in business skills management
- Help in technical training

(Khulanathi chainsaw contractor, Mfekayi)

Source: adapted from Cairns 2000

Credit and infrastructure development

Approximately R1.2 million in loans is made available by the companies each year under the schemes – they are thus significant providers of credit in the areas where they operate. The schemes have also provided some infrastructure in the form of depots. These depots have become places for growers to meet contractors and foresters. The timber industry has been less successful than the sugar industry in raising government money for access roads.

Land conflict and emerging elites

Various interest groups within communities may compete with timber growers for land. The two major parties are: *pastoralists* whose grazing land is depleted (this land may have been previously allocated to grower households but used communally); and *youth* who fear that unutilised land for future households is rapidly disappearing. Conflict has occurred in particular within communities where Tribal Authorities have allocated large tracts of land for forestry. Issues of ownership and responsibility and distribution of profits have been added to the above land use conflicts. While Tribal Authorities do generally act to prevent acquisition of large holdings, an elite group of timber growers can develop through astute use of the mechanisms of land allocation, purchase and sharecropping.

Impacts on gender relations

More than half the growers in the schemes are women. But all the company extension officers and foresters are men. This is likely to have hindered communication and skewed understanding of the specific dynamics and problems related to gender relations. It appears that the schemes cannot assist women to access new land but they are used successfully by female-headed households to secure existing rights over land use. The woodlots have not particularly locked women into cash crop activities. Married women have lower decision making powers over their labour and benefits gained from the schemes. Households often share profits in a responsible manner, however, despite the

Box 9 A husband and wife tree growing story

Mrs S. first heard about the scheme from neighbours. Her main interest in trees was to get some cash income. After asking permission from her husband she planted the trees in 1994, using Mondi contractors for all operations. The trees were registered in her name.

In 1999 her daughter got married. Her husband who works in Durban decided to harvest the trees to get money for the wedding. Mondi was contacted to provide contractors but there is always a long waiting list and they could not wait for the transport to arrive. They found their own contractors and paid them as follows:

Area	0.9 ha
Yield	about 93 tonnes (103 tonnes/ha) (Compare with 177 tonnes/ha of best grower)
Felling	R150 / truck load x 10 trucks
Stacking	10 people R10/day for 20 day
Transport	R150 / load
Loaders	R20 / load (on) per truck R10 / load (off) per truck
Total contractors	R5,300 (Compare Mondi price at R42/tonne = about R4,200)
Mondi loan repayment	R2,302
Total income (probably)	R13,113 (Compare R14,570/ha with R24,761/ha of best grower)
Take home (probably)	R5,511 (Compare R6,123/ha with R15,238 of best grower)

Mrs S. does not know how much was earned as her husband took the money. She does not belong to any association of growers though she believes it could be useful to exchange experiences with others. She believes the family had no choice but to harvest early as the money was needed urgently. Her husband is seldom home and has a girlfriend in Durban so does not send much of his earnings to her. *(Khulanathi grower, Esikhaweni area)*

Source: adapted from Cairns 2000

Table 16 Comparing outgrower sugar cane and timber

Key features	Small-scale sugar production	Timber outgrowing
Historical investment	Considerable investment in small milling 1940-1955 and state promotion of a producer class. Integration into protected 'white' industry in 1970s with strong state support. Rapid and dramatic grower uptake under these frameworks of support.	Early state support for planting for timber, conservation and erosion control. 1930s shift to restrictions on expanding peasantry, introduction of central plantations in reserves and wage labour. Some state planting support in 1960s-1970s. Grower uptake patchy.
Current support structure	Centralised industry sourcing and management of credit. Millers as agents and extension service providers. Guaranteed markets and high industry tariff protection, with preferential prices for (white) growers. Strong state support (legacy of apartheid Kwa-Zulu government) for roads and extension.	Company sourcing and management of credit and limited extension. No state extension, infrastructure or technology transfer support. Single buyers linked to company contracts. Recent diversification of market options and prices (e.g. NCT). No tariff protection or price support.
Numbers of growers, areas and production involved	About 45,000 small growers on 60,000 ha producing 4.1 million tonnes = 13% of total cane throughput and 23% of total land	About 13,000 small growers on 31,000 ha producing 100,000 tonnes = 3–5% of total fibre throughput and 4% of land
Credit, production and profits	Contract farming system – advances for annual tasks, deducted from milling proceeds. Retention scheme added. Subsidised interest. Yields 41 tonnes/ha/annum average against industry average of 71 tonnes. Average annual returns R560 (range R6,900 irrigated to R258)	Similar. No retention schemes. 10% simple interest, or no interest. Yields: 22 tonnes MAI against industrial average of 25 tonnes. Average annual returns R1,485
Institutional development	Strong. Funded trust supports local association development, integrated into mill cane committtee structure. Strong central representation at central level. No equity participation.	Minimal or weak in outgrowers schemes. Some local downstream. Well integrated at central and local levels in SAWGU and NCT. Equity in both.

Trends	Reduction in tariff protection. Low cost SADC producer/price competition. Industry expansion to Africa. Divestment and land reform on company estates – reduces risk and gearing. Deregulation of small producers and withdrawal of some company support. Increased small-grower vulnerability.	Commodity cycle peaks and troughs being managed for outgrowers. Early stages of divestment in estates. Outgrowers well located for opportunities in agri-business, supported land reform, and privatisation of state assets. Outgrowers vulnerable to company policy changes.

Source: adapted from Zingel 2000

companies' efforts to register forests in the name of the appropriate person there is little that protects women in abusive relationships. Most gender tensions within grower households seem to be attributable more to unequal power relations legitimised by society than to the schemes themselves.

Comparison of timber and sugar cane outgrowers

Comparisons with the other major 'outgrower' model in the region – small-scale sugar cane production is useful. Levels of development, support, output and organisation of small-scale sugar cane provide important insights for better forestry outgrowing. Some key contrasts and structural issues are noted in Table 16.

Changing structural conditions in the sugar industry, combined with deregulation, may have significant effects on the sustainability in small-scale production. Many of the larger white producers close to the processing plants are considering shifts into timber production, where long term returns and a reduced investment in labour are attractive given the future regime of reducing tariffs.

5.3 Community-based deals

Deals for tree-growing between companies and community groups, through instruments such as joint ventures, are newer to South Africa and far less expansive in terms of area covered than outgrower schemes. Outgrower contracts with whole community-level groups have not been particularly successful under the company schemes in KwaZulu-Natal. Major problems seem to occur around ownership, responsibilities, distribution of benefits and the opportunity cost of whole groups giving up large tracts of land for forestry.

Community-based deals range in type and origin. They may be relatively spontaneous and unexpected by the company; an example of this is the taungya-style groundnut scheme on Mondi plantations in Tzaneen, which started in the early 1980s. In this scheme, communities do not actually grow trees, but groundnut planting and management by them involves a number of activities that benefit the company's own operations while enabling communities to grow a marketable crop. Mondi (then HL&H) did not formally invite this activity, but rather observed it for a while and then applied the company's new learning about mutually beneficial community-company land use to its land in White River and Piet Retief.

Companies find it easier, legally and operationally, to make dealings with individual outgrowers than with broader, organised community groupings. One of the main obstacles for companies dealing with community groups is the relatively low levels of capacity within companies to understand social dynamics in a detailed sense. Companies are reluctant to pay for the transaction costs involved in building community capacity to a degree where the company feels assured that it is involved in a relationship with a willing, motivated and knowledgeable partner. Thus, the private sector perceives considerable risk in deals with local communities.

Box 10 Fruit farm equity sharing – lessons for forestry

There is considerable potential for partnerships where a history of significant mutual trust exists between the parties. An example is *Whitehall Farms Equity Sharing Scheme*, whose relative success has been attributed to the good labour relations between the owners of the farm and workers. Located in Western Cape Province, Whitehall is a deciduous fruit farm of a little less than 180 hectares. There are two legal entities – the Whitehall Landholding Company (which owns the immovable property), and the Whitehall Farming Trust (which holds the moveable property). The Workers Trust and the Hall Family Trust each hold half the shares in both entities. Participating employees share equally with the previous owners in profits and capital growth and each group has the same number of directors and trustees. Participation in this scheme is voluntary and available to all permanent workers. Participants forego their annual bonuses as a contribution to the scheme and receive title to shares in the Whitehall Workers Trust as a result. Furthermore, in order to fund their purchase, the Workers Trust borrowed from two development agencies, IDT and DBSA and a commercial bank securing loans through bonds on the property. By blending financial resources, average interest rates were substantially below the full commercial rate. To date, the scheme has achieved generally increasing yields, substantial gains in labour productivity and reduced absenteeism, a significant reduction in staff turnover, and increased worker satisfaction with wages and conditions of employment and working conditions.

Source: Foy and Pitcher 1999, Ojwang 2000

Challenges for representation in community institutions

Many rural areas of South Africa are typified by rather weak levels of community cohesion. Complications arise from the fact that sharing a common resource does not in itself make for an harmonious and homogeneous community. Various smaller groups with differing interests such as women and youth groups may be more individually cohesive than the 'community' as a whole. However, there are several collective legal mechanisms available for representation of the community:

- *Communal Property Association (CPA)*. This is a legal mechanism for communities to own land. The process of developing the CPA defines the grouping which represents the community. Pioneered by the North Eastern Cape Forests initiative, some fairly well developed and robust procedures have emerged for forming CPAs. Some of the CPAs so far constituted have more than two hundred members, others only about ten.

- *Community Trust*. This is a flexible arrangement allowing trustees and beneficiaries to change. Yet the absence of strict rules guiding trust procedures can foster mismanagement and a lack of transparency. This often discourages community members and private investors who perceive risks to their investments.

- *Section 21 Company.* This is an association, not for gain, limited by guarantee, under the Companies Act. A Memorandum and Articles of Association detail a Section 21 company's regulations and objectives. As with a Community Trust, changes in membership do not affect its existence. However, considerable transaction costs are involved in establishing such companies and, for communities lacking in technical and managerial skills, this may prove prohibitive.

- *Co-operative*. These are democratic structures comprising of a recorded number of members with voting rights, a capital structure and methods of distribution of profit and loss. Members are responsible for losses incurred. SAWGU for example is made up of individual growers, and NCT was set up initially to ease transportation costs from the growers to the processor through joint transportation. Whilst these are not examples of representation of communities, the mechanism could be used in this way.

Experience to date in the Eastern Cape

Companies recognise, that the issue of partnership with community entities will have to be tackled squarely if increased volumes of fibre – requiring significant new afforestation – are going to be generated. This is largely because most of the area of new afforestable land in South Africa is found in the Eastern Cape province in areas under communitarian tenure regimes. In these areas, the expansion of the small-grower approach may not be practical. Parts of government, some NGOs and some communities also see great potential here – the rural areas of the Eastern Cape badly need development opportunities and forestry may be in a better position than most to provide one. Distant mills and a comparatively poor road system, however, remain important commercial disincentives.

With a view to generating ideas and lessons on how community-based deals with companies might lead to effective and equitable partnerships, we review some current or recent initiatives. Two main types are reviewed:

- *Joint ventures*. In these cases the parties set up a joint commercial venture company where each party has a share or equity stake in the company commensurate with the value of their contribution. Each party shares in the ownership, proceeds and liabilities of the company. In the Eastern Cape, communities entering into such partnerships usually contribute their land, labour and/or their Settlement and Land Acquisition Grants[8] to the venture. Private Sector companies contribute capital, expertise, physical assets, information, networks, etc and also take most of the risk in terms of purchasing, processing and marketing the produce. Consequently, the community stake in most of these ventures tends to be relatively small, usually in the region of 10%.

- *Leases with shared equity.* The process of restructuring state forests in the Eastern Cape is encouraging the development of a combination of partnerships, particularly the combination of leases and equity sharing arrangements. This is because the State has required that companies wanting to lease state forests must have a 10% black economic empowerment stake in their companies. Consequently, the preferred bidders for the category A state forests have made 10% (and sometimes more) of their shares available to legal entities representing communities neighbouring the forests, and also to workers trusts. This type of partnership is also developing in the tourism sector through the investment facilitation strategies known as Spatial Development Initiatives.

Table 17 shows the main parties and stakes in these deals.

Although currently mothballed, the *North East Cape Forests* (NECF) initiative is instructive of the potential for community-based deals. Developing mechanisms for the creation and management of viable Communal Property Associations (CPAs) was a key feature of NECF. The CPAs had the responsibility of mediating in the project, including taking precautionary measures to prevent damage or use of trees not sanctioned by the agreement, and to oversee the creation of other community subcommittees. Whilst NECF bore the financial risks, the community was also exposed to certain risks. Some of the land earmarked for afforestation was previously used for grazing and risks of dissent and opposition from livestock owners and other previous individual users were real.

The CPAs involved held an equity stake based on the value of their land earmarked for afforestation. The land value stood at 20% of the input costs while the remaining 80% was the private consortium's contribution. The NECF consortium recognised that the community's stake was quite low and needed to be increased if empowerment goals were to be realised. Hence NECF explored other funding opportunities which could increase benefit flows to the communities.

8 Settlement and Land Acquisition Grants are worth R16,000 per qualifying person and can be used for purchasing equipment or any land for sale. It is the larger of several grants available to people in the land redistribution programme.

Working a eucalyptus woodlot in the Eastern Cape. Forestry deals between companies and whole communities could be an important route to local development in future

Government is also directly engaged in seeking company-community deals in the Eastern Cape. DWAF has embarked on the transfer to communities of the currently non-commercially viable forests it holds in the former homelands. In the Eastern Cape, these areas consist of about 150 lots – some plantations as well as woodlands – totalling about 12,000 ha and employing some 1,300 labourers. The legal mechanism proposed for these transfers is the CPA. DWAF has recognised that communities are wary of involvement in forestry because of a conflictual history with forest developments. It also recognises that involvement of private sector investors is crucial if forestry is to stand a chance of contributing to local development. In 2000, DWAF founded a *Forest Enterprise Development Office* in the Eastern Cape as a pilot exercise to deal with devolution of the DWAF-held areas and to link communities with potential private sector investors. This agency aims to act as a firewall between investors and communities, offering brokering and guidance on financing and equity deals for forest development.

Most of the company-community deals described above are either shelved, facing difficulties or are still in their fairly early stages of development. Thus the overall momentum for such deals is fragile, and their patchy history means that lessons drawn should be treated with some caution. Nevertheless, tentative lessons will be needed over the next few years during community demands for development in the Eastern Cape, and company desires for more fibre and other business opportunities, are likely to rise. We turn to this in section 6.3.

Table 17 Company-community forestry deals in the Eastern Cape

Initiative	Partners	Main Features of the deal
Umzimkulu-Mondi joint venture	Mondi and Communities (Trusts) – on state land	Mondi encouraged communities to form CPAs and use their Settlement and Land Acquisition Grants to buy land appropriated from white farmers. Mondi to provide extension, start up capital and technical assistance for tree growing. Mondi now handing over to a managing agency.
Lambazi-Sappi joint venture	Sappi and Communities (planned CPAs) – on state land	Company sought to deal with communities who have historical claims to lands formerly controlled by state agricultural corporation – to contribute 2,000 ha for tree planting with commercial return. Have contracted local NGO (Lima) to facilitate and are also seeking donor finance.
Ugie-North Eastern Cape Forests joint venture	NECF and Communities (CPAs) – on community land	NECF comprising Anglo-American, de Beers, IDC and Mondi bought 100,000 ha from large farmers for planting up in conjunction with developing a processing facility in Eastern Cape. Turned out to be poor land – only 35,000 ha planted. Converted the project into 3 community schemes with a view to making up some of the shortfall – and helped developed the CPAs. Planting started in one of them. CPAs to contribute land and labour, both parties to protect. Plans too for related infrastructural and economic development. Drop in market price for pulp and wider company decision to halt plans for more mills led to project being shelved.
Singisi Forests lease with shared equity	Communities (Trusts), workers and companies – on state land	The Hans Merensky Corporation has set up a joint commercial forestry venture with equity stakes in the company commensurate with the value of partner contributions, as follows: ● Hans Merensky Corporation 51% ● East Cape Development Corporation 10% ● Black Empowerment Trust – E. Cape entrepreneurs 14% ● Singalanga Community Development Trust 10% ● Employees (Hans Merensky & DWAF/SAFCOL) 9% ● National Empowerment Fund 6%

		This consortium has been selected as preferred bidder for the government's privatisation of a package of some 57,000 ha of forests in the Kokstad and Umtata regions. Hans Merensky Corporation contributes capital, expertise and physical assets and takes most of the risk in terms of purchasing, processing and marketing produce. Planning at community level is still in the early stages.
Amatola Forests lease with shared equity	Communities (Trusts), workers and companies – on state land	Like the Singisi case, the preferred bidders for DWAF's sell-off of forests in the Amatola and Katberg mountains is a consortium. This involves two private forestry and saw milling companies, whilst the communities neighbouring the forests and the workers involved in the companies are represented by Trusts. The community and worker stakes in the venture amount to 30% and the workers have used their Settlement and Land Acquisition Grants to buy into the company. This consortium has indicated that it will sub-contract certain operations to local small-scale entrepreneurs. However, negotiations have been suspended because of outstanding debts.
Tsitsikamma Khoisan Village	Community (Trust and Section 21 Company) and companies – on community land	Tsitsikamma Forest Trust, situated on the eastern bank of the Bloukrans River, was established as the legal land holding entity (Section 21 company) for 29 ha of land transferred from the state to the community in 1997. The trust has entered into partnerships with three separate private and public/private organisations: Bloukrans Bungy, Eastern Cape Tourism Board and South African National Parks. Community members have contributed land and buildings. Tourism development focuses on promoting awareness of the local indigenous cultures (Khoi/San) including accommodation, craft production and selling, a museum and bungy jumping.

Sources: Sisitka 2000, Andrew *et al* 2000, and Bethlehem 2001 (pers.comm.)

5.4 Summary

Corporate social responsibility initiatives in forestry have been around for years. Outgrower schemes tread a rather different line – somewhere on the boundary between corporate social responsibility and hard-nosed business. Outgrowing is a way of allocating risk between producer and contractor: the former takes the risk of production and the latter the risk of marketing. The relationship between the two parties is defined by the contract and the relative strengths and bargaining positions of the two parties is largely defined by the economic and policy context in which the contract is embedded.

Outgrower schemes have become a vital part of the commercial strategy of the large forest companies in South Africa. Whilst company managers note that outgrower timber only provides a small proportion of throughput, and is the most expensive per tonne, they also note that the outgrower schemes provide fibre to the companies that would otherwise be unavailable because of land constraints. This allows a volume of production to be reached which achieves economies of large scale.

Outgrower schemes have contributed to household income but have not yet taken households out of poverty. Outgrowers' associations are still weak in terms of their ability to lobby for small-grower interests. Set up by the timber companies themselves for administrative purposes, these groups function to co-ordinate meetings and training, and to allocate quotas and payments. However, they lack real power since they lack the capacity to engage with policies and institutions that affect their livelihoods.

Internal class and community conflicts are likely to rise in future as land for future households becomes in shorter supply. Land that has traditionally been communal is in places now being privatised, and questions of ownership and responsibility are likely to loom large over the next few years.

In contrast to the individually-based outgrower schemes, community-based forestry deals have only received attention recently. These have focused on the Eastern Cape, where potential for new forestry is greatest. Yet there are some major disincentives for companies in developing community-based deals in the Eastern Cape. These include some of the general challenges posed by the underdevelopment of much of the region: poor roads and huge transport distances (60% of the market price for wood fibre produced in the Eastern Cape is transport cost) and little primary industry. In this context the existing forestry companies' enthusiasm for partnership approaches blows hot and cold depending on internal strategic decision-making related to company gearing, wider markets and the international pulp price. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships may be slow to get off the ground.