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ANALYSIS OF PRINCIPALS AND POTENTIAL PARTNERSHIPS FOR TREE OUTGOWER SCHEMES IN WESTERN KENYA:

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ABSTRACT

The forestry industry in Kenya is undergoing tremendous transformation occasioned by the shrinking supply and rising demands for wood in the construction and other sectors. Trees on farms and settlements are increasingly gaining importance as a complimentary source to declining public forests. The government has enacted favourable policies and regulatory framework for promotion of farm forestry in collaboration with various stakeholders. Among the key reforms are encouraging formation of producer associations and formation of partnerships between tree growers and major wood using industries to guarantee markets for tree products from farms. However, there is limited experience on the type of partnerships that industrial roundwood consumers and small scale tree growers can undertake jointly. To bridge the gap KEFRI initiated a study to document relevant cross country experiences and local initiatives in western Kenya. The results reveal that there are various categories of model out-grower schemes relevant to Kenyan conditions ranging from market assurances, technical and financial and financing and land lease agreements. The study revealed that there are some key principals that encourage and sustain partnerships that include mutual trusts, fair negotiation process, longer learning process and equitable share of benefits and risks. The options for financing partnerships range from mobilization of savings, bank credits, joint ventures, donor support and micro financial institutions. The conditions in western Kenya making it conducive to formation of partnerships include availability of large number wood based enterprises, efficient marketing systems and vibrant farm forestry activities. Though in western Kenya most partnerships are informal or not a product of any negotiated process but it is forms a milestone development that need nurturing to enhance the potential supply capacity of farm forestry and income opportunities from tree based enterprises. (Words 258)

Kenya words: farm forestry, out-grower, schemes, partnership

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1.0 Introduction

The forestry industry in Kenya is undergoing tremendous transformation occasioned by the shortage of wood and the continued rising demands for wood in the construction and other sectors. The forest cover in Kenya estimated at 2.5% of the total land mass which is relatively small in the context of the international levels. The scenario is made worse by the high degradation caused by pressure from forest adjacent communities and inadequate capacity of Forest Department to establish and maintain forests. The plantation forestry sector that was started with earnest in 1930's and rapidly expanded in 1970's and 1980's with the support of the World Bank to supply the expanded wood-based industries has been dwindling with less replanting achievements and survival of planted seedlings. According to Kenya Forestry Master Plan document (KFMP, 1994) trees on farms and settlements are increasingly gaining importance as trees in public forests are declining. To compliment public forests supplies the government is encouraging the development of alternative sources of wood materials mostly from farms and private sector plantations.

Forest Policy 2005 outlines activities to be undertaken by the Government of Kenya in collaboration with various stakeholders in promoting the development of farm forestry. Recent studies have shown that farmers are responding positively to these changes and many farmers are taking tree as important land use and alternative investment in their agricultural landscape. The policy envisages liberalizing forestry sector and encouraging formation of producer associations and private companies to engage in commercial tree growing. The policy advocates for formation of partnerships between tree growers and major wood using industries is one of the approaches of guaranteeing markets for tree products from farms. In western Kenya there are various large scale enterprises that are dependent on tree products that have potential to form partnerships with tree growers for mutual benefits. These enterprises include Pan African Paper Mill (PPM), Kenya Tea Development Agency (KTDA), Kenya Power and Lighting (KPLC), Homalime Ltd and many small firewood consuming food and textile processing industries.

2.0 Justification

The Forest Policy 2005 underpinned the importance of tree out-grower schemes in the promotion of market led farm forestry development in the country. There are various forms of partnerships between tree growers and industries and other stakeholders in the forestry sector that have developed in recent years in western Kenya. The study was aimed at documentation existing partnerships and their experiences in terms of opportunities and constraints they currently face in the region. The experiences and learnt lessons will become handy in future promotion of tree out-growers schemes in the region and the country. It was with such consideration that KEFRI with support from Trees on Farm Network (TOFNET) undertook a tree out-grower partnership stakeholder survey in western Kenya.

3.0 Materials and Methods

The study involved literature reviews on principals and potential partnerships elsewhere in the globe and relevance to Kenyan conditions. The second part involved reconnaissance survey to map out existing or emerging partnerships between farmers and major tree product consumers and other stakeholders in the region. The identified partnerships were surveyed by use of informal interviews guided by checklist questions. Those interviewed included wood based enterprise managers, extension agents and tree growers. The partnerships surveyed included KTDA, PPM, Homalime Ltd, Forest Action Network (FAN), Western Kenya Tree Planters Association (WETPA) among other key institutions that support farm forestry activities in the region.

4.0 Results and Discussions

4.1.0 Partnerships in Smallholder Tree Growing

4.1.1 Approaches for Forging Strategic Partnerships

In theory the concept of strategic business partnership is geared to benefit both the wood based industry and smallholder tree growers. According to Scherr etal (2003) there are various model approaches being undertaken in many countries but the most common is the smallholder out-grower schemes similar to those existing in the sugar and tea sectors in many African countries. However, there are variant approaches depending on the nature of the symbiotic between the partners being considered. The following subsection

Paper presented in the Proceedings of the in 4th KEFRI Scientific Conference on Recent Advances in Forestry Research for Environmental Conservation, improved Livelihoods and Economic Development held at KEFRI Hqts from 6th –9th October 2008, pp 321-333 discusses some of the issues and principals for good partnerships based on theory and practice.

4.1.2. Models for Smallholder Tree Grower Partnerships

4.1.2.1.0 Out-Grower Schemes

There are various potential smallholder tree out grower schemes that are relevant to Kenyan farmers. The schemes for simplicity can be classified into the following categories

- **Contract farming:** This is a partnership in which growers are largely contracted for production and the company guarantees purchase of mature crop at an agreed price. South Africa provide three examples South African Wattle Growers Association that contracts 600 farmers to supply bark and Mondi and Sappi that contracts over 200,000 out growers for pulpwood materials. Others examples are found in India and Australia
- **Technical and Financial**: This is a partnerships where farmers enter into elaborate technical and financial support agreements that may involve provision of high quality seedlings, establishment costs, maintenance costs, front payments and assurance for purchase of the final crops either in single or combinations of the above. The support costs are recovered after the sale of the crop. Examples are found in India, Australia, New Zealand and South Africa.
- **Subsidy Programmes**: This is a partnership where company or government agency is largely responsible for all production management operations and the land owners are paid market prices for their final wood crop minus the production costs: This is common in some EU countries where several smallholder woodlot owners are amalgamated into one production unit under the supervisory of public forestry agency.
- **Land lease agreements**: This is an arrangement which landowners are paid for use of their land and have little involvement in management but may be entitled to some proportion of the final profits: Common in the USA and some EU countries.

4.1.2.1.1 The advantages of out-grower schemes to industry

The following are some advantages of the out growers schemes to the partners:

- The farmers are assured of markets
- Prices are agreed in advance
- The firms can access the materials at competitive costs
- Firms access land cheaply in case of leases
- Firms diversify supply of raw materials
- Firms get greater acceptance of the community because of perceived social responsibility (social branding opportunity).

4.1.2.2 Investment Partnerships

The buyers of forest products and industry separately or in partnerships can help finance local tree enterprises to improve operations through investment partnerships. In most cases the companies can bring investment resources, management expertise and market linkages to smallholder farmers and at the same time guarantee markets access and remunerative prices

4.2 Principles of Viable Farmer-Industry Partnerships

For the partnership to benefit both the farmer and the industrial wood consumer it is necessary that the partnership follow some specific guidelines/principles to encourage and sustain the company and community partnership:

a) mutual trusts of partners legitimate aims
b) Fair negotiation process
c) Learning approach- allowing for learning process and experimentation and treating deals as learning process
d) Long term commitment from partners
e) Equitably shared risks are well spelt out at the initiation of the contract
f) Sound business principles- no exploitative relationship, or relationships based on insincere objectives e.g. use of contracts for public relation exercises
g) The partnership should contribute positively to each development

4.3 Capacity building and networking for producer associations

To put both producers and industries in equal footing in negotiations and drawing of partnership protocol some fundamental capacity building must be undertaken. These may include the following:

- Training of producers on the technical side of the business of tree growing and management
- Negotiation and bargaining skills with the consumers - improving on the social capital
- Networking of the producers.
- Encourage voluntary association with developed sets of rules and regulations to avoid the state bureaucracy that in most cases is an impediment to business growth.
- Defining the role and responsibilities of associations. These roles could be in providing market information, legal advice, financial analysis, linkages to lobby groups and political supporters, mobilization of financial resources through organizing credits and assistance in forest planning

4.4 Critical Elements of Successful Partnership Associations

There are some critical elements necessary for formation of viable and successful partnerships in the forestry sector. The following are some of the elements for any successful partnership associations:

- Development and sustenance of a shared vision
- Locating and partnering together by people of the shared vision
- Development of a monitoring system so as to respond to dynamics of the markets and social environment

4.5 Financing Options for Partnerships

The following are some potential sources for financing partnerships within the ECA countries:

- Self- through saving or mobilizing own resources from members
- Bank credits: Some long term loans from commercial banks or financial institutions, Micro-finance institutions
- Joint ventures with the consumers of forest products.
- Development Trust Funds examples for forestry developments.
- International Funding Facilities examples include Carbon Credit, Green Environment, World Bank, IFAD, ADB etc.

The following brief report highlights some of the existing partnership, their experiences and some relevant lessons of importance to farm forestry development in the region.

4.1.0 Nyando Valley Development Trust Fund (NVDT)

This is a local community based organization (CBO) formed by Homalime Company with local farmers in Koru in Nyanza. Homaline Company is a large consumer of firewood in its lime and sugar processing activities. The objectives of NVDT is to promote tree planting by farmers mostly in Nyando, Kericho, and Nandi South districts so as to boost production and improve environmental conditions in these areas. The project covers the following districts Kericho (Chilchila and Kipkelion divisions) and Nandi South (Meteitei and Chemase divisions).

4.1.1 Model Partnerships

The company has a central nursery that produces about 100,000 seedlings that are sold to farmers for Ksh 5 per seedling. NVDT operates within two agro-ecological zones the Rift Valley highlands and Lake Basin lowlands. Farmers in the lowland zones are encouraged to plant *E. camaldulensis, E. paniculata, and C. equisitfolia.* Those in the highlands are recommended to plant *E. grandis, C. lusitanica and P. patula.* The company through NVDT assists groups and individuals to establish tree nurseries by providing quality seeds from KEFRI and tubes for a period of one year to each nursery that is expected to produce a target of 50,000 seedlings. The support is run according to a sustainability plan that expects the beneficiaries to sell all the seedlings at Ksh 5 to generate Ksh 250,000. The group members can share seedlings worth 150,000 or the generated money but have to plough back to nursery activities Ksh 100,000 to ensure sustainability. The supported nurseries in the second year and subsequent years are required to buy seeds from NVDT to ensure that they raise good quality seedlings. NVDT plans to recruit up to 16 groups and individuals in the next four years. NVDT is collaborating with Kenya Forest Services (KFS) staff and other agencies in promotion of tree planting activities within its operation area to compliment its thin staff in the ground.

Homalime Company Ltd also lease land from absentee land owners to plant trees on two conditions. It can plant and maintain woodlots up to 2 years and the owners has two options to pay Ksh 50,000 per hectare to own the established woodlot or allow the company to harvest the first crop and recover its costs and revert back to the owner immediately. Due to large number of absentee farms in the sugar belt many farmers have come forward to lease land to NVDT to plant trees or contract NVDT to plant trees for them. About 40 hectares of woodlots have been established through the programme.

NVDT has long experience in integrating livestock keeping with tree planting and thus encourages farmers to use wide spacing of 3mx3m and 3x2m to enable woodlots owners to graze their animals in the second year to 4th year when grass can still grow under the woodlot canopy.

NVDT in collaboration with KARI and KEFRI Maseno have been training farmers in nursery management, tree establishment, woodlot management, harvesting and marketing of tree products. The efforts are geared to creating awareness on the potentials of farm forestry in income generation and as well as improvement of environmental condition within the highly degraded Nyando Valley Basin.

Homalime Ltd buys firewood from farmers and also assists them to sell surplus to tea estates and other consumers. This effort is to link tree growers with ready markets for their tree products and hence promote commercialization of farm forestry activities.

4.2.0 Problems and Experiences

Homalime reports that it is experiencing high costs of extension and support activities without any external support. The company reports that it has not realized benefits to commensurate with the costs incurred in the promotion of farm forestry activities.

NVDT reports that many farmers have high expectation that cannot be matched by its limited resources. The farmers feel that Homalime Ltd is a donor and must do for them all the planting and maintenance activities thus hindering taking up the ownership of supported farm forestry activities.

There is lack of a coordinated strategy on farm forestry and environmental development in the country specifically within the districts covered by the project. Some government offices have been discouraging farmers from planting Eucalyptus and hence adoption of NVDT supported initiatives. Some stakeholders in the sector expect financial support from NVDT to mobiiize farmers to participate in its forestry projects. These conflicts have resulted into hostile reception of the NVDT initiatives in some areas.

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4.0 Western Kenya Tree Planters Association (WETPA)

There are many emerging small poor coordinated tree planters associations in western Kenya that have been formed in the last 4 years to serve the various interests of tree growers in the region. Among them is WETPA that covers Lugari, Bungoma, Busia and Trans Nzoia and has an office in Webuye Town. The formation of WETPA was facilitated by Forest Action Network (FAN). Its objective is to mobilize farmers within the Pan African Paper Mill (PPM) supply zone to grow commercial trees for sell to PPM. WETPA also has taken up the responsibility of negotiating for fair prices and other support incentives from PPM. In its short period of existence WETPA reports that had by 2006 formed a strong team of interim officials, motivated members to plan 20 hectares of trees and negotiated with PPM to increase factory gate price from from Ksh 1200 to 1500 per tonne.

Many farmers who are members of WETPA interviewed felt that the current prices offered by PPM makes it financially unviable to grow trees for firewood. All were not aware of the price that can make it feasible to undertake the firewood enterprises. This was an indicator that there was general lack of sufficient information on cost and benefit of trees based enterprises thus making investment decision difficult among the potential tree growers. However, our records indicate that it costs Ksh 30,000 to put trees under one hectare of Eucalyptus woodlots and by taking a mean annual growth rate of 45m^3 per hectare the total yield after 6 years is 270m^3 . By taking a farm gate price of Ksh 500 per cubic metre the total earnings is 135,000 thus a gross profit of Ksh 105,00 or annual equivalent of Ksh 17500 as compared to 4,00-10,000 for maize crop.

5.0 PPM Western Kenya Out-grower Scheme

Pan African Paper Mills (PPM) is the largest paper making industry in Kenya and has been relying on public forests for its roundwood supply since its establishment in 1975. However, the supplies from public forests have been declining and PPM in 2004 took a decision to extend its supply catchment to farmers within a radius 150 kilometres from the factory. PPM has embarked on promoting intensive growing of trees as a business in 11 districts in western Kenya. PPM has demarcated 11 districts into its potential supply zones depending on distance from its factory at Webuye and appointed 4 extension/liaison officers out of expected 7 for recruiting commercial tree growers. It has increased its factory gate prices from Ksh 750 to 1500 per tonne for firewood and Ksh 1600 per tonne for pulpwood to encourage farmers to supply roundwood. It has developed specification and regulations for supply of firewood and specifications for pulpwood to enable farmer comply with. It has registered 5,000 farmers as potential suppliers of rounwood and sell to them high quality seedlings at Ksh 3 per seedling. In 2005/2006 it produced 2.8 million seedlings for both indigenous and exotic species that was split between KFS and farmers. The bulk of the seedlings are *E.* grandis others include Cypress, pines and various indigenous species. In 2005 farmers were given 192,715 that increased to 4,444,171 seedlings in 2006. It aims at higher targets in the future. Farmers in between January to August 2006 supplied 8,959.13 tonnes of pulpwood and 7,671.28 tonnes of firewood. The payout sum was Ksh 14,334,608 and Ksh 11,506,920 respectively.

5.1 Experiences

The supply of materials from farms is irregular because farmers are forced to synchronizes harvesting with off-farming seasons to reduce possibility of crop damage

Transport costs have hampered farmers to deliver roundwood to the factory because of high transport costs. It costs up to Ksh 10,000 to hire a 7 tonne lorry to ferry firewood to the mill from neighbouring farms and can be higher with increased distances. Poor roads make transporters charge high transport costs

Traders have taken up the responsibility of buying from farmers and delivering to the mill hence reducing farmer potential payouts for its tree products. The traders complain of high prices for trees from farms made worse by lack of common unit of measure. Traders were reported to have been making financial losses and PPM had to develop solutions. PPM solution was to advising both traders and farmers to agree on prices based on conventional mill tonnage on delivery to the factory. An agreement is drawn between the traders and farmers on the agreed prices per tonne and PPM splits the cheques as per the agreement between the two partners when paying for the deliveries. The approach was found to be a more reliable way of deciding on payments and PPM has endorsed its use.

However, it is upon the farmer and the traders to agree on which methods serves them best

PPM is working closely with FD on recruitment of tree growers and supply of seedlings to farmers. PPM also expects support from FD on informing farmers on the potential markets, processing of harvesting and movement permits for tree products from farms. It is keen on supply of high quality seeds from KEFRI and other agencies.

PPM was also working with KEFRI to provide guidelines on economic analysis of tree growing enterprises to aid farmers in their investment decisions.

6.0 FAN Experiences with Private Partnership Initiatives

Forest Action Network (FAN) is a leading NGO working in natural resources management and the environment with a focus on forests. The Forest Policy and the Forests Act No. 7 of 2005 envisage and provide for partnership in the management of forests and in the growing of trees on private farms. In an effort to put to test the applicability of the provisions of the Policy and Act, FAN has in 2006 initiated a tree-partner arrangement between private sector, tree farmers and even the civil societies. The aims were to tree growing into a business like other agricultural crops, providing material for forest based industries and creating jobs and incomes for rural communities. The farms were also to be used as pilot demonstration sites for individuals and communities interested in tree growing. FAN facilitated capacity building and mobilization of tree-growing farmers in six districts in Western Kenya to form the WEPTA with the objective of entering into partnerships with PPM and other private companies to supply them with pulpwood and firewood. In 2006, FAN embarked on a pilot tree farmer out-grower scheme in six districts in the North Rift and Western Kenya with an aim of linking tree growers to large consumers such as KTDA affiliated tea factories and Pan Paper Mills in Webuye. The pilot at the start aimed at setting up a total of 10 hectares of demonstration sites but that rose to 20 hectares by May 2006.

Other initiatives that FAN started were facilitation of black wattle tree growers in North Rift and western Kenya ((Lugari, Nandi South, Trans Nzoia and Uasin Gishu districts) to enter into partnership with the Kenya Vegext (EPZ) Ltd for supply of black wattle bark at better prices. Kenya Vegext (EPZ) Ltd was established in 2002 to manufacture vegetable tanning extract in powder form and was experiencing a shortage of raw material (wattle bark). The partnerships resulted in the supply of 60 tonnes of bark and income of Ksh 180,000 to farmers in western Kenya

6.2 Criteria of Selecting Farmers

FAN has drawn a list of criteria for selecting tree growers that include the following: its proximity to a potential market (Pan Paper Mills or KTDA factory), willingness to place at least 0.2 hectares under trees, willingness to sign a partnership with FAN or the private sector, appropriateness of land for growing a selected tree species, availability of other land to grow food crops and willingness to use the *shamba system* for the initial years of establishment.

6.3 FAN – Farmer Contract format contents

FAN has drawn an elaborate contract format that contain the following: The agreeing to grow species of trees line with the market demand, allow other farmers and visitors to access the land planted with trees on notice, FAN to provide funds for land preparation and seedlings, farmer uses the *shamba* system *to* establish the trees, farmer to let the trees remain in the farm till maturity, erection of partnership sin post on the farm among others.

The contract documents contain details of district, division, location, size and the elevation above sea level as well as the geographical GPS coordinates.

6.4 Lessons Learnt

- That it is possible to grow trees for the market on individual farms.
- It is an expensive venture for most farmers to grow trees on-farm due to high cost of establishment.
- Promoters of tree growing should be ready and prepared for new lessons in this area.
- There is need for a long term funding mechanism for donors and private sector to support farmers to grow trees.

7.0 Lessons from model partnerships

The sampled out-grower schemes and partnerships between framers and industry were still at infancy stages. However some lessons are already emerging. Among them are those outlined in Table 1 that indicates that:

- There are various variants of partnerships all except that of FAN lacked evidence of binding agreements and principals for engagement (Table 1).
- Cited handicaps high transport and assembling costs for roundwood from farmers exacerbated by harvesting and movement permit requirements bias supplies from scattered small scale tree producers.
- High cost of seedlings, establishments costs and extension services make most industries reluctant to enter into partnerships with farmers take up and low quality seed sources that resulted in low germination and poor quality seedlings.
- There is lack standard measure for industrial wood at farm level thus hindering convergence in bargaining process. The use of stacking is possible at farm level and tea factories but for supplies to PPM that uses tonnage. Most farmers are not conversant with the two methods hence disagreements with buyers who prefer prices based on standing tree at farm level.
- The industries performing extension work reported that there was high expectation from farmers and extension staff that has proven expensive to meet.
- Some farmers supplied with subsidized seedlings were reported to sa e them instead of planting as agreed with the partners thus defeating the purpose for the partnerships and no remedy for such actions.
- The general feeling among wood based enterprises that the farmers roundwood is of poor quality and hence likely to attract low prices due to their poor adherence to conventional silvicultural practices.
- They wood based industries are aware that roundwood supplies from farmers are irregular because most of the harvesting is done only during post- crop harvest season to avoid crop damage and hence cannot provide continuous supplies to industry without adequate storage facilities.

The above cited lessons have informed bulk tree product buyers not to embrace farm forestry as a reliable alternative to public forests in supply of tree products. Thus there is

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need for efforts to provide solutions to the various problems that hinder the various stakeholders to enter into equitable and viable partnerships in farm forestry development. This partnerships are necessary for enabling the farm forestry sector access to lucrative markets, competitive financial and technical services for high productivity and hence remunerative incomes from farm forestry enterprises.

Table 1: Experiences from Model partnerships in western Kenya

	Permits	Transport cots*	Seed Quality+	Standard measure**	Seedling Targeting=	Expect ations#	Extension costs @	Products Quality$	Seasonal harvesting&
NCDT	√	√	√	√	√	√	√	√	√
PPM	√	√	√	√	√	√	√	√	√
KTDA	√	√	√	√	√	√	√		
FAN	-	-	√	-	√	√	√	-	-

* Favoured merchants: + Low seed germination lower seedling targets(KEFRI) **Farmers who sell products to merchants: Agreement to use factory weigh bridge and split cheque (PPM): = Seedling diversion from stated use and dishonest: # Too much financial support expectations from stakeholders (farmers, groups, KFS): @ All experienced high extension costs in form of inputs, staff, transport etc: collaborative structure: FD, KEFRI, LVEMP, KARI: $ Poor quality and small supplies or misspecifications : & Seasonal harvesting to avoid crop damage.

8.0 Others Partnerships and Collaborative Activities

Table 2 shows some partnerships that farmers have with various stakeholders in western Kenya to support tree growing and tree products marketing. It reveals various collaborative approaches in existence to promote tree growing and trade in tree products. The core partnership approaches between tree growers, industry and other stakeholders were seedling subsidy, technical services, marketing facilitations, transport subsidy and market guarantees for tree products. At the lower end were market leasing of land, joint woodlot development, licensing by public authorities and formation of tree growers associations.

Table 2: Some Farmer Partnerships in western Kenya

Agents /services	Seedling subsidy	Credit support	Technical support	Marketing facilitation	Transport subsidy	Market guarantee	Lease land	Joint Deve.	Support FOA	Taxes licens
Homa	√	-	√	√	√	√	√	√	-	-

PPM	√	-	√	-	√	√	-	-	-	-
TTI	-	-	-	-	√	√	-	-	-	-
KTDA	√	-	√	-	√	√	√	-	-	-
Corn prod	√	-	-	-	-	√	-	-	-	-
KENKNIT	-	-	-	-	-	√	-	-	-	-
FAN	√	√	√	√	-	-	-	√	√	-
COSOF	-	-	√	-	-	-	-	-	√	-
KEFRI	√	-	√	√	-	-	-	-	-	-
FD	√	-	√	√	-	-	-	-	√	√
KVDA	√	-	√	-	-	-	-	-	-	-
LVEMP	√	-	√	√	-	-	-	-	-	-
Councils										√

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