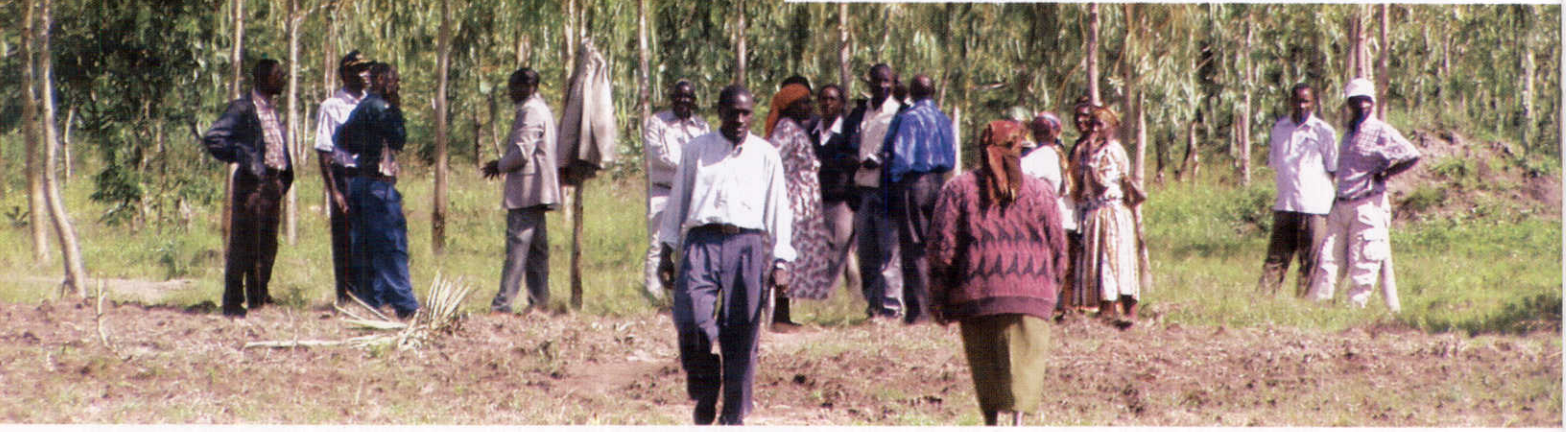
Western Kenya offers excellent climatic conditions for profitable tree growing, such as these pines (Pinus oocarpa) that are 44 years old



Out-grower associations should have regular meetings between members to decide on proper strategies for marketing to get the most out of their resource. They also need to exchange any technical information that promises better management of their woodlots.

Tree out-grower schemes **are the way forward**

Partnerships between tree growers and major wood using industries guarantee markets for farm tree products

PART I

By Joshua K. Cheboiwo[1] and David Langat[2]

The forestry sector in Kenya is undergoing tremendous transformation occasioned by the shortage of wood and the rising demand for wood in the construction and other sectors. Forest cover in Kenya, estimated at 2.5 per cent of the total landmass, is relatively small compared to international levels. This scenario is made worse by the rapid degradation of public forests through human activities and inadequate capacity of the Kenya Forest Service (KFS) to establish and maintain forests.

The plantation forestry sector that was started in earnest in the 1930s and expanded rapidly in the 1970s and 1980s, with the support of the World Bank, to supply the expanded wood-based industries, has been dwindling with less replanting and survival of planted seedlings. According to the Kenya Forestry Master Plan (KFMP, 1994) trees on farms and settlements are increasingly gaining importance as a complement to production from public forests. Thus, farms and private estates have become alternative sources of wood materials for rural and urban consumers in Kenya.

The proposed Forest Policy 2007 outlines activities to be undertaken by the government 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 are taking trees as an important land use activity and as an alternative investment venture in their agricultural landscape. The policy envisages liberalising the forestry sector and encouraging the setting up of producer associations and private companies to engage in commercial tree growing. It advocates for the formation of partnerships between tree growers and major wood using industries as one of the ways of guaranteeing markets for tree products from farms.

A number of large-scale enterprises in western Kenya that are dependent on tree products have the potential to form partnerships with tree growers for mutual benefit. These enterprises include Pan African Paper Mills (PPM), Kenya Tea Development Agency (KTDA), Kenya Power and Lighting (KPLC), Homalime Ltd and many small firewood consuming food and textile processing industries.

The large round wood consumers in

western Kenya have recently initiated a number of partnerships with tree growers in the region. This article aims at documenting existing partnerships and their experiences – the opportunities and constraints they currently face. The article is split into three. Part I, in this issue of *Miti*, will introduce the concept and look at the principles that govern it. Part II, to be carried in *Miti* Issue 6, will give some examples while the last part, in *Miti* Issue 7, will deal with more examples and the lessons learnt. The experiences and learnt lessons will come in handy in the future promotion of tree out-grower schemes in the country and the region. The study was a collaborative work between KEFRI and Trees on Farm Network (TOFNET) formerly hosted by ICRAF.

Partnerships in smallholder tree growing ventures

In theory, the concept of strategic business partnerships is geared to benefit both the wood-based industry and smallholder tree-growers. According to several studies, various models of partnerships between private tree-growers and the wood industry are being undertaken in different countries. The different approaches depend on the nature of the symbiotic relationship between the partners being considered and the sectoral policy and legislative regimes in place.

A number of smallholder tree out-grower schemes are relevant to Kenya. For simplicity, they can be classified into the following categories:

- **Contract farming:**

In this partnership, growers are largely contracted for production and the company guarantees the purchase of the mature crop at an agreed price. South Africa provides three examples – the South African Wattle Growers Association that contracts 600 farmers to supply bark, and Mondi and Sappi that contract over 12,000 out-growers for pulpwood material. In India, the West India Match Company and the National Bank for Agriculture and Rural Development initiated a joint out-growers scheme where farmers were offered loans, seedlings, technical support and a guaranteed market. Similar schemes have been undertaken in Indonesia, Philippines and Australia.

- **Technical and financial agreements:**

This is a partnership where farmers enter into elaborate technical and financial support agreements that may involve provision of high quality seedlings, payment of establishment and maintenance costs, up-front payments and assurance for purchase of the final crop. The agreements may involve one 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:**

These are partnerships where a company or government agency is largely responsible for all production management operations and the landowners are paid market prices for their final wood crop minus the production costs. This is common in some European Union (EU) countries where several smallholder woodlot owners are amalgamated into one production unit supervised by a public forestry agency.

- **Land lease agreements:**

This is an arrangement where landowners are paid for the use of their land and have little involvement in its management, but may be entitled to some proportion of the final profits. This is common in the USA and some EU countries.

Advantages of out-grower schemes

Some of the advantages of the out-grower schemes to the partners are:

- 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 the supply of raw materials
- Firms get greater acceptance within the communities where they operate because of perceived social responsibility (social branding opportunities).

Investment partnerships

Buyers of forest products and the 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 market access and remunerative prices.

For the partnership to benefit both the farmer and the industrial wood consumer, each needs to trust the other's legitimate aims and the price negotiation process should be fair to both parties. The partners should allow for experimentation and treat deals as a learning process. They need to have a long-term commitment to the partnership. The method of sharing the risks should be spelt out clearly at the initiation of the contract.

Sound business principles should be applied to the partnership and it should not be exploitative or a mere public relations exercise for either party. The partnership should contribute to the development of each party.

To put both producers and industries on an equal footing in negotiations and drawing of partnership protocols, some fundamental capacity building must be undertaken. This may include:

- Training of producers on the technical side of the business of tree growing and management;
- Equipping producers with negotiation and bargaining skills – that is, improving on their social capital;
- Networking of the producers;
- Encouraging voluntary associations 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 could provide market information, legal advice, financial analysis, linkages to lobby groups and political supporters and mobilisation of financial resources through organising credit and assistance in forest planning.

Critical elements of successful partnership associations

Some critical elements are necessary for the formation of viable and successful partnerships in the forestry sector. These are:

- A strong policy and legislative framework governing partnerships
- Development and sustenance of a shared vision
- Locating and partnering of people with the shared vision
- Development of a monitoring system to respond to dynamics of the markets and social environment.

Financing Options for Partnerships

The following are some potential sources for financing partnerships within East African countries:

- Self-financing, through savings or mobilising members' own resources.
- Bank credits: Producers may obtain long-term loans from commercial banks and other financial and micro-finance institutions.
- Joint ventures with consumers of forest products.
- Development trust funds for forestry development.
- International funding facilities like Carbon Credit, Green Environment, World Bank, IFAD, ADB and others.

Part II of this article, to be carried in the next issue of *Miti*, will highlight some of the existing partnerships in Kenya, their experiences and some relevant lessons to farm forestry development in the region.

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