

# Liberia Oil Palm Outgrowers Scheme

## Concept Note

### 1 Investment Proposal

This concept note describes an investment proposal for the pilot phase of a large scale oil palm outgrower project in Liberia, to be established and managed by two of the world's premier oil palm companies, Sime Darby Sdn Bhd and the Sinar Mas, through their Liberian group companies, Sime Darby Plantations Ltd (SDPL) and Golden Veroleum Limited (GVL).

The pilot concept has been developed to prove the financial viability, management and governance requirements and yield potential of new outgrower plantations, potentially one of the world's largest oil palm outgrower schemes, supported by 420,000 hectares of SDPL and GVL nucleus plantation.

The investment project is to:

- a) plant 3,200 hectares as five separate community plantations
- b) manage the new plantings through their period of development
- c) harvest, transport and process the oil palm crop, returning investors' funds from the sale proceeds.

The funding proposal is:

Loan to develop 3,200ha smallholder oil palm plantations (\$)	19.8m
Grant for support; training, governance, project oversight (\$)	<u>3.0m</u>
Total (\$)	22.8m

The outgrower project IRR of 9% (real terms US dollars) supports a proposal for a long term development loan drawn over seven years and repaid over the remaining 12 years of a 19 year term, subject to production tonnages, palm oil prices and development costs. Due to the experimental and proving nature of the pilot project, the loan is currently proposed to carry an interest charge of 3%. There is a possibility of introducing a loss guarantee for certain elements of the pilot loan from the Norwegian Government through IDH (Initiatief Duurzame Handel - The Sustainable Trade Initiative). This would be applied through IDH's Production-Protection Agreement model where the guarantee is granted in return for protection of an area of natural forest. Forest areas have already been identified in four of the five pilot areas.

### 2 The Liberian Industry

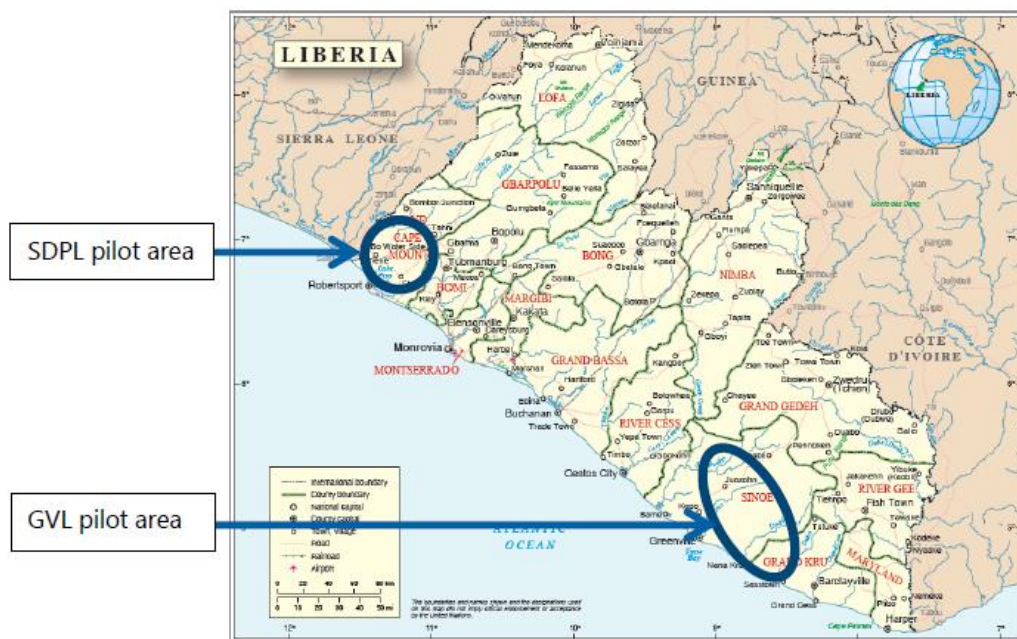
The Liberian oil palm industry is at a fledgling stage. Concession agreements have been signed with four producers. SDPL and GVL together have concession agreements with the Government of Liberia (GoL) to develop a total of 420,000 hectares of commercial oil palm plantations in the country, subject to the parallel development of 84,000 hectares of outgrower oil palm plantations. This scale of pioneering outgrower development demands a pilot phase to prove the concept and business assumptions. This pilot phase is the subject of this proposal.

### 3 The Market and Certification

GoL is committed to developing an industry that is certified by the Roundtable on Sustainable Palm Oil (RSPO). GVL and SDPL are also committed to the same goal and to export Certified Sustainable Palm Oil (CSPO) to Europe and to the rest of West Africa. The certification of the outgrower plantations as well as the nucleus areas is another pioneering aspect of this project.

### 4 The Project

The project is located in two regions in the east and west of the country. The eastern pilot plantations will be a component of the GVL nucleus/outgrower business. The western pilot plantations will be a component of the SDPL nucleus/outgrower business.



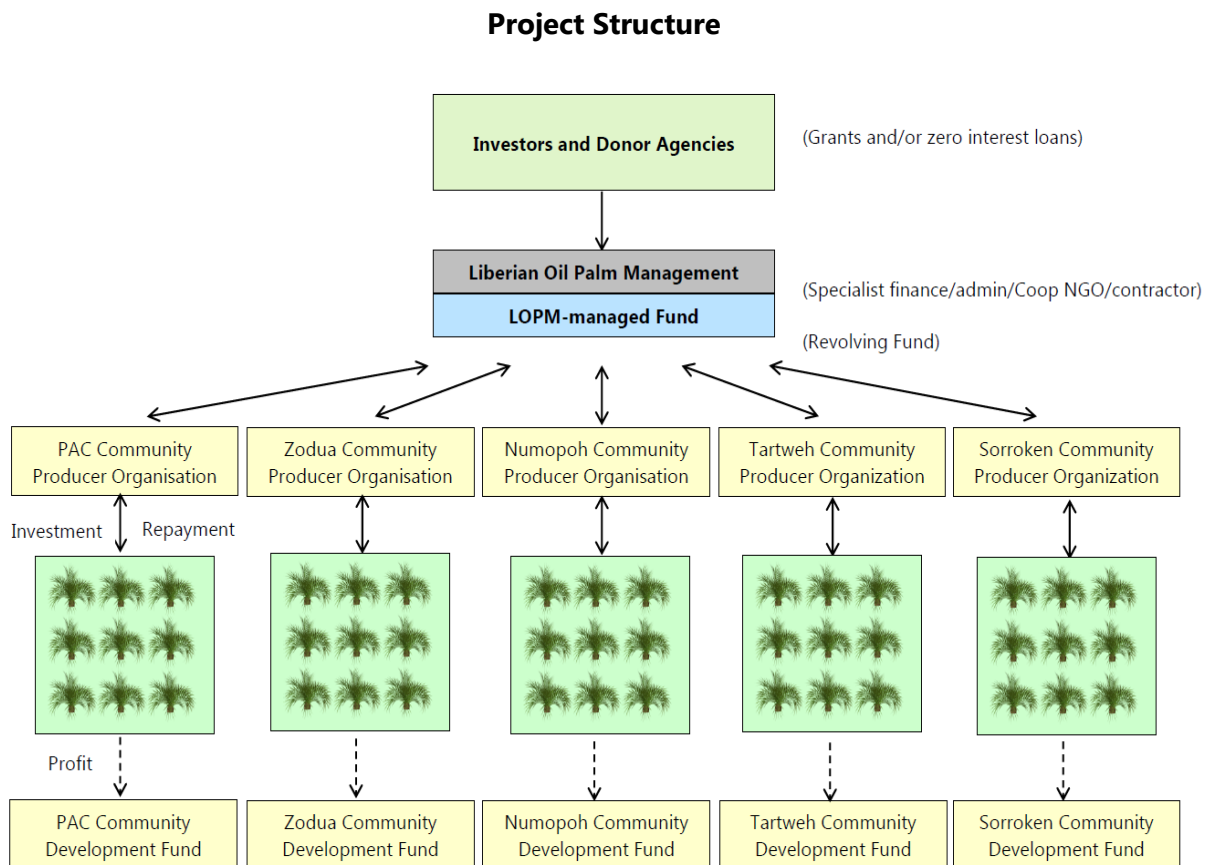
To date, approximately 20,000 hectares of nucleus estate have been planted. A provision in the concession agreements requires the parallel development of 84,000 hectares of outgrower oil palm plantations for the benefit of local rural communities. The agreement requires that these outgrowers are supported by the two companies with inputs, training, technical and management assistance while also providing a guaranteed market for the oil palm fruit. GoL has the responsibility for raising funds for this outgrower development and so this Concept Note is promoted by GoL on behalf of the outgrowers.

Development of the outgrower plantations will be in two phases with a first proving phase of 3,200 hectares, for which this funding proposal is addressed. Communities have been heavily involved with the development of concept and operating plan through the Free Prior Informed Consent (FPIC) process and a formal, independent, Needs Assessment. GVL and SDPL work closely with the communities on a daily basis.

## 5 Structure and Management

GVL and SDPL will manage the complete project from raising seedlings through to harvesting and retirement of the development loan, including land clearing, planting, establishment of roads, bridges and drains, field maintenance activities and plantation human and infrastructural resources.

A new company, Liberia Oil Palm Management Company (LOPM), will be set up to manage the flow of funds between investors, GVL, SDPL, trainers, consultants and others. The LOPM will also be the community interface with GVL, SDPL and GoL and be the monitoring body to ensure progress of the project plan. LOPM will establish a small office in Monrovia and satellite offices in the community areas so as to be in regular contact with everyone associated with the project.



## 6 Project Summary Timeline

Month	Activity
July to October 2016	<ul style="list-style-type: none"> <li>• Fundraising</li> <li>• SEIA</li> <li>• M&amp;A system formulated</li> <li>• Land titling/legal ownership confirmation</li> <li>• HCV/HCS assessment of land areas</li> <li>• Establishment of community producer cooperative organisations</li> <li>• Establishment of LOPM</li> <li>• Recruiting LOPM staff</li> </ul>
November 2016 to April 2017	<ul style="list-style-type: none"> <li>• Agreed funding structure and funding committed</li> <li>• Land clearing</li> <li>• 3,200ha planting</li> <li>• Training/TA programme agreed and commenced</li> <li>• Commence RSPO certification process</li> </ul>
January 2018 to December 2019	<ul style="list-style-type: none"> <li>• Roads upgrade project prior to harvesting</li> </ul>
January 2020	<ul style="list-style-type: none"> <li>• RSPO certification complete for all areas</li> <li>• Harvesting commences</li> </ul>
March 2023	<ul style="list-style-type: none"> <li>• Final loan drawdown</li> </ul>
March 2035	<ul style="list-style-type: none"> <li>• Loans repaid</li> </ul>

## 7 Risk

The greatest risk is posed by a fall in international crude palm oil prices. Financial projections assume future prices at current levels, which are relatively low at approximately half the historic peak and 6% below the average for the last five years. A 10% fall in the international palm oil price throughout the project period would extend the loan repayment period by four years. A fall in price by 20% would require the percentage of FFB price deducted to service loans to be raised and consequently the net income to the farming communities would fall.

Other key factors are the mill oil extraction rate, oil palm yields, development costs and fertiliser rates. None of these alone poses significant risk to investors, although a combination of adverse factors may threaten the ability of farmers to repay loans within the expected term.

## **8 Development Impact**

Rural Liberia is one of the most impoverished areas in the world suffering from the long lasting post-conflict fragility, some 13 years after the end of the civil conflict. The continuing presence of UN forces and a chronic lack of investment in the country is witness to the need for long term support, particularly in rural areas.

People are desperate to develop their communities and better themselves but rarely do they have any opportunity nor support to do so. This pilot project not only provides that opportunity but provides it for a large number of people (1,300 employees and other community beneficiaries plus almost 7,000 dependents) through new employment opportunities and cash profits. Furthermore the project is economically, socially and environmentally sustainable and meets a growing demand for certified sustainable and traceable vegetable oil.

A successful pilot phase will lead to a full outgrower project benefitting 34,000 community residents with regular employment or cash profit plus 180,000 dependents across Liberia.

## 9 Project Profit and Loss Account

Trading, Profit and Loss Account		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Inflation factor		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
New Planting		0	3,200	0	0	0	0	0	0	0	0
Total Plantations		0	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200
TOTAL FFB (mt)	MT	0	0	0	0	12,800	25,600	38,400	48,000	54,400	60,800
FFB Sales	US\$	0	0	0	0	1,369,600	2,739,200	4,108,800	5,136,000	5,820,800	6,505,600
Total Sales Revenue		0	0	0	0	1,369,600	2,739,200	4,108,800	5,136,000	5,820,800	6,505,600
Field Maintenance Costs		0	0	0	0	0	1,947,639	1,947,639	1,947,639	1,947,639	1,947,639
Field Harvesting Costs		0	0	0	0	530,795	865,408	1,197,792	1,422,000	1,583,176	1,729,722
Production Costs		0	0	0	0	530,795	2,813,047	3,145,431	3,369,639	3,530,815	3,677,361
Stock (Increase)/Decrease		0	0	0	0	0	0	0	0	0	0
Cost of Sales		0	0	0	0	530,795	2,813,047	3,145,431	3,369,639	3,530,815	3,677,361
<b>Gross Profit</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>838,805</b>	<b>-73,847</b>	<b>963,369</b>	<b>1,766,361</b>	<b>2,289,985</b>	<b>2,828,239</b>
Company Overhead costs recovered		0	0	0	0	0	0	0	0	0	0
Administration profit margin		0	1,031,868	276,287	203,796	206,748	281,305	314,543	336,964	353,081	367,736
Amortisation		0	515,934	654,078	755,976	832,810	832,810	832,810	832,810	832,810	832,810
<b>Net Profit Before Interest &amp; Tax</b>		<b>0</b>	<b>-1,547,803</b>	<b>-930,365</b>	<b>-959,773</b>	<b>-200,753</b>	<b>-1,187,962</b>	<b>-183,984</b>	<b>596,587</b>	<b>1,104,093</b>	<b>1,627,693</b>
Interest Charges		0	0	340,517	441,907	522,417	565,228	592,840	591,160	566,013	530,606
Exchange (Profit)/Loss											
(Profit)/Loss on Sale of Assets											
Investment Expenses											
<b>Profit Before Tax</b>		<b>0</b>	<b>-1,547,803</b>	<b>-1,270,882</b>	<b>-1,401,680</b>	<b>-723,170</b>	<b>-1,753,190</b>	<b>-776,824</b>	<b>5,427</b>	<b>538,080</b>	<b>1,097,087</b>