

Frequently Asked Questions

ON COMMUNITY OIL PALM AND PRODUCTION PROTECTION AGREEMENTS



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These Frequently Asked Questions were prepared only to inform stakeholders, especially in the South East of Liberia, on Community Oil Palm and the Production Protection Agreement, and to invite their feedback. This set includes FAQs on 1) Community Oil Palm farm, 2) Production Protection Agreements; 3) the Community Legal Entity; 4) Financing and the loan, and 5) on general background questions

We have tried to answer the questions we have received so far, as clearly as possible, in this booklet. Please note that this is a new program which is still in development.

This means that information in this booklet is likely to change.

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COMMUNITY OIL PALM & PRODUCTION PROTECTION AGREEMENTS



The program

The Government of Liberia, the IDH Sustainable Trade Initiative (IDH) and the oil palm concession holding companies, are working together to raise investment and build capacity for the community oil palm outgrower scheme. The aim of the collaboration is to improve the livelihoods of community-based farmers while protecting the forests in Liberia. The program started in Sinoe and Grand Kru in 2016 in the Golden Veroleum (Liberia) (GVL) concession area and surrounding areas.

1. What is a community oil palm farm and what is an outgrower farm?

A community oil palm farm is simply a farm growing oil palm created and owned by the community, that produces fresh fruit bunches. In these FAQs, the community oil palm farm means the same thing as an outgrower farm, because there will be a contract between the community and GVL for selling the fruits to GVL.

2. What is the background of the Community Oil Palm outgrower scheme?

The Concession Agreements for Sime Darby and GVL include provisions to set up outgrower schemes. In these Agreements, the Government of Liberia commits to support communities with funding to develop community oil palm farms, and the concession holders commit to buying the fruits and providing the technical support and inputs needed by the community to set up and run the farm.

IDH is working with Government of Liberia and oil palm concession holders to attract investors from outside of Liberia to invest in Community Oil Palm outgrowers.

Significant research work has gone into developing an approach to this outgrower model that fits the context of Liberia, led by the National Bureau of Concessions (NBC) and their technical partner, GROW. As part of this effort, a team of consultants did a Community Needs Assessment where a team of experts visited potential outgrower communities. Based on this research, an outgrower model was developed and proposed. The model was presented to Cabinet in August 2016 and was approved.

3. Who is IDH?

IDH is a foundation headquartered in the Netherlands that works in oil palm and other sectors to promote a.o. sustainability, smallholder development and forest conservation, working in partnership with the public and private sectors. It started working in Liberia in 2016.

4. Who pays for IDH's work?

IDH work in Liberia is funded by the Norwegian government, as part of the partnership between Norway and Liberia.

5. Why does the outgrower scheme include forest protection?

It is a condition of the investors supporting the outgrower scheme that for every hectare of oil palm investment, at least five hectares of forests are protected. Forest protection is important to the development of Liberia. Healthy forests protect soil, water supplies, climate, rainfall and other environmental and biodiversity features that are essential for the prosperity and security of communities.

6. What conditions need to be met for a community to take part in the Community Oil Palm and Forest protection program?

- ▶ The community needs to provide suitable land and make sure there is sufficient land for (future) farms (see FAQs on Community Oil Palm Farm).
- ▶ The community must sign a Production-Protection-Agreement,
- ▶ The community must also set up a Community Legal Entity (see FAQs on Community Legal Entity) to sign the loan agreement and make decisions on the community oil palm farm on their behalf.
- ▶ Finally, the community needs to plan ahead on how the conditional income from the farm will be shared, and how the Forest protection plan will be carried out.
- ▶ The decision to set up an oil palm farm must be something that's agreed on by the majority of the community.
- ▶ Partners supported by IDH will work with the community to support informed decision making.

THE COMMUNITY OIL PALM FARM



1. Who will own the community oil palm farm?

The community will own the oil palm farm. The community will take out a loan to pay for all the cost of the farm, including for the land to be cleared, to buy the palm seedlings and fertilizer, and to pay the people who will be working on the farm.

2. How much land does a community need to be able to apply for a loan to develop its community oil palm farm?

The community needs to have enough land available for the community oil palm farm (minimum **250** hectares), forest protection (minimum **1,250** hectares) and (future) farm land. The community must be able to protect 5ha of suitable forest for every 1ha of land it wants to develop for community oil palm.

At least **250** hectares of open land is needed for the farm, but **500** hectares or more is preferable. It could also be more than **500** hectares if the land is available. Land needs to be good growing land, not low-lying or poor soil. For every 1 hectare of land for oil palm development, the community must have 5 hectares of forest to protect.

3. How much is one hectare?

One hectare is **2.47** acres. This is about the size of one full size football pitch. For an estimation, you can multiply a hectare by **2½** to get the area in acres.

1 hectare is
2,47 acres

250 hectares is
617 acres

500 hectares is
1235 acres

1000 hectares is
2471 acres

4. Can the community oil palm farm be developed on forested land?

No, the community oil palm farm cannot be developed on forested land. In fact, the idea of the loan agreement is that the community will protect and use their forest in the best way so that there will always be forest in their community. The oil palm companies such as GVL have no deforestation commitments, and will not work with any community that deliberately clears forested areas to offer to them for company oil palm, to develop their own oil palm farm or to use for other purposes if they give use all their available cleared land for oil palm.

5. What if an individual farmer has 250 hectares of land, can they apply for a loan for establishing a community oil palm farm?

No, only a community can participate in this community oil palm farm program. Individuals, NGOs, associations, or a single family cannot take part by themselves. The land must clearly be agreed on by the community for community oil palm, with no conflict and no border disputes with neighboring communities.

6. Can non-community members or people that are not from the community become part of the community oil palm farm?

No, non-community members cannot become part of a community oil palm farm. You have to be a recognised member of the community living on the land to get involved. Remember that this scheme is intended for rural communities to develop increased prosperity and protect forest. It is not intended for community members who have left and live in other parts of Liberia or overseas.

7. Is it true that only communities with a large forest can start a community oil palm farm?

Yes, to be able to receive this loan, the community needs to protect its forest, for which a Production Protection Agreement needs to be signed. More information on this can be found in the FAQs on the Production Protection Agreement.

8. Will the community oil palm farms only be in the GVL MOU areas?

This program is starting in the south east where GVL operates. The first community oil palm farms will be in or near GVL MOU areas. The key requirement is that the land needs to be near to GVL operations for transportation and efficiency.

It is also planned that community oil palm farms will be set up in or near Sime Darby and Equatorial Palm Oil operational areas.

9. Why does the community oil palm farm be close to a road?

Fresh fruit bunches have to be processed within a short time of harvesting to meet the quality requirements of buyers prepared to pay the best prices. Land which is isolated or off the main road network is not likely to be suitable for practical and operational reasons.

10. Can you summarize what the conditions are for the land, for a community oil palm farm?

Yes, the land for the community oil palm farm needs to be:

- A** Minimum **250ha**. of land, and ideally **500ha** or more.
- B** Land clearly agreed by the community for community oil palm, with no conflict.
- C** Land needs to be good growing land, not low-lying or poor soil.
- D** Land needs to be near to GVL operations for transportation and efficiency – not isolated or off the main road network.
- E** Not forested land, and not land of importance now or likely to be important in the future for community members and their food and income security.
- F** A community will have to show that its decision to set up an oil palm farm is something that is agreed on by the majority of the community.
- G** The community needs to meet the **1:5** ratio for forest protection, and sign the Production-Protection-Agreement.

11. What will be the role of the palm oil company – in this case Golden Veroleum Liberia (GVL)?

The role of palm oil company GVL will be to:

- ▶ Provide technical support for the community to set up and operate the CLE and the community oil palm farm.
- ▶ Manage the loan and repayment of the loan.
- ▶ Be the first point of contact with the communities.
- ▶ Manage the farm until the loan is repaid, based on a contract with the communities.
- ▶ Give training to communities to help them develop technical and management skills.
- ▶ Sign the **Production Protection Agreement** (also called PPA, see next **FAQ** pages for more information) and take a leading role in making sure everyone sticks to the agreement.

12. Why will GVL manage the Community Oil Palm Farm?

The investors expect that when GVL manages the farm, yields will be higher, because they have experience managing oil palm plantation. They also prefer for GVL to manage the loan and loan repayment, because that way they deal with one experienced organization, instead of with many smaller community oil palm organizations.



13. What will the loan be spent on?

The loan will cover all costs needed to develop and manage the community oil palm farm until the loan has been repaid after 15 years. **The main costs are:**

- ▶ Clearing the land.
- ▶ Buying the seedlings.
- ▶ Buying fertilizers and pesticides.
- ▶ Building and maintaining roads on the farm.
- ▶ Paying employees.
- ▶ Annual conditional income, dependent on the community protecting the forest as agreed.
- ▶ Administrative and management costs.

14. How will GVL profit from the community oil palm farm?

GVL expects to make its profits principally from processing high yield, high quality fruit. The community will be paid for supplying high yield, high quality fruit to GVL, so the company's interests and GVL interests are strongly aligned.

All major goods and services provided by GVL, such as machinery to clear and prepare land, seedlings and fertilizers, will be provided to the community at cost. GVL will not make a profit on those inputs. GVL may charge a management fee, but this will be a transparent and fair amount.

15. Who will pay GVL to provide these services?

The community will pay GVL for their services out of the loan that the community will take out.

16. Why should the community pay the GVL?

The community owns the farm. Therefore, anyone who provides services or works on the farm, including GVL, will have to be paid for their work or services.

17. How can the community be sure that the company is charging a fair price for the services they provide?

GVL will keep records so that the community, the government and IDH can look at them and audit them. The aim is that each party can be seen to be treating the others fairly by regularly referring to and checking on the financial records kept.

18. What income will there be?

While the loan is being repaid, there will be two types of income:

- A** The community farm will give jobs to people, who will work on the farm itself and receive salaries that will be paid from the loan. The estimate is that for each six hectares of oil palm, one person will be full time employed.
- B** As long as the forest is protected as agreed in the PPA, there will be a conditional payment of between US \$ 30 and US \$50 per hectare of community oil palm farm land to the community each year. This will also be paid from the loan.

After 15 years, when it is expected that the loan will have been repaid, the community will receive all income from its sales of Fresh Fruit Bunches. The **FAQs on Financing** provide more information on the loan, the loan repayment the benefits and the risks.

19. Who will be employed by the community oil palm farm?

Community members will be employed on the community oil palm farm. For certain jobs that need people with specific skills and knowledge, GVL will employ other people.

20. How will the wider community be involved in the oil palm farm?

Every adult member of the community, including women and young people, will be involved in the discussion and decision-making about the community oil palm farm. However, because not everyone can work on the farm or be involved in the day-to-day management of the farm, the community will set up a community-owned organization to manage the farm and keep the whole community informed. The **FAQs on Community Legal Entity** provides more information on this.

21. **Can communities also say no to the Community Oil Palm farm loan?**

Yes, the community is free to decide not to take part. It will be for the community to make this decision and other parties will respect the community's decision.

22. **If the community is interested, what can they do**

If a community hears about this program and is interested, they should first inform GVL or the oil palm company operating in their area. However, for this first round of investment, only a limited number of communities can participate.

23. **What are the steps in the process, after interest is expressed?**

First, the company confirms that the area is suitable for growing oil palm, the community has sufficient protectable forest, and sufficient land remains available for (future) farms. The community must have 5ha of suitable protectable forest for every 1ha of land it wants to develop for community oil palm. Then, from this point on, the community will be supported through the rest of the process.

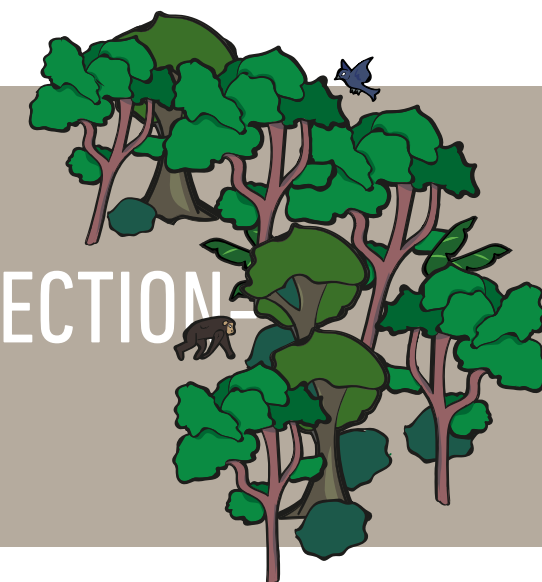
An independent person or team, probably from an NGO or a consultancy firm, will work with the community to organize their community legal entity and develop their forest protection plan. The community will be visited and consulted to confirm that any decision to participate in the program has broad support across the community, and that the community feels it has received all the information it needs to make a properly informed and free decision.

When setting up a Community Legal Entity (see FAQs on Community Legal Entity), and preparing to sign the loan agreement and the Production Protection Agreement, the community will have access to independent legal advisors.

It is very important that the community receives this advice, as it will be signing contracts and agreements that commit it on a long term basis and which require it to take on responsibility for a significant loan which must be repaid.

Frequently Asked Questions

FOREST PROTECTION AND PRODUCTION-PROTECTION- AGREEMENTS



1. **What is a Production-Protection-Agreement or PPA?**

A Production-Protection-Agreement (PPA) is a contract signed by the community, the Government of Liberia, and the palm oil company. In this contract, everyone agrees to protect and manage important forests in the community or nearby in return for a loan to develop a community oil palm farm. The GPS coordinates of the forest and the plans for looking after the forest are laid out in a Forest Protection Plan, which is part of the PPA.

2. **What does the Government of Liberia have to do with the PPA?**

The Forestry Development Authority (FDA) will represent the Government of Liberia and will sign the agreement. The FDA will ensure that the oil palm company and the community stick to the agreement made. The FDA will also help the community to develop and carry out the Forest Protection Plan.

3. **How will communities benefit from conserving their forest?**

The first benefit to the community is that they will get a loan to develop their community oil palm farm. They will also get help in managing the forest in a sustainable manner, so that forest resources such as medicinal plants and building materials remain available in the future, but non-sustainable use is stopped. This means that the forest will not be used for making individual farms, commercial logging, hunting, mining or destructive fishing, for example. Protecting the forest is also important for water supply and quality, flood management and erosion protection.

4. What is the difference between PPAs and the Memoranda of Understanding (MoUs) with the oil palm company?

They are very different. The PPA covers the Community Oil Palm farm and the commitment to the forest that the community plans to protect and use in a sustainable way. The PPA contract is legally binding and signed by the community, the oil palm company and by FDA representing the Government of Liberia.

The MoUs are a two-way agreement between the community and GVL that gives the company the right to use community land for oil palm development. The MOUs typically include commitments that both parties make to the other, although these have been very flexibly applied to date.

5. If the whole community does not agree to sign a PPA, what happens to the community oil palm farm?

If a community decides it does not want to sign a PPA, the community oil palm farm will not go ahead. The PPA and the community oil palm farm go hand-in-hand.

6. How long will the PPA last?

The PPA will last for at least 25 years.

7. Is there a standard PPA?

Yes, there is a standard PPA. However, every community can propose changes that meet the specific needs of the community, as long as these changes still allow the community, government and oil palm company to meet the key commitments required in any PPA and are agreed by all parties.

8. Who develops the forest protection plan

IDH will hire a forest protection expert, who will partner and work with the community, to take the GPS coordinates of the forest and to develop the Protection Plan.

9. Is there a fixed amount of forest to be protected under the PPA?

For every one hectare of land developed for oil palm, the community must set aside at least five hectares of forest for protection. This means if a community plans to develop 250 hectares of land for palm oil, it should also plan to set aside at least 1,250 hectares of forest for conservation. It can also be more. If more forest is protected, the conditional income will most likely be higher.

10. What if a forest under the PPA is cut down, despite the agreement?

If a forest that is protected under the PPA is cut down, that will break the agreement and there will be serious consequences. For the community, this means that the community may no longer receive the conditional income per hectare of Community Oil Palm Farm. GVL may decide that it cannot work with the community any longer as they may have no deforestation commitments that mean that cannot continue to be involved with any community that deliberately deforests. There may also be legal consequences.

11. Will the community have access to the forest?

Yes, the community will continue to have access to the forest under the agreement. However, the community will need to make a plan for the types of activities that are allowed and the types of activities that are not allowed. For example, no one will be allowed to make a farm in the protected forest.



THE COMMUNITY LEGAL ENTITY AND CONSTITUTION

1. Who will own the community oil palm farm?

For the community to sign for a loan and the Production Protection Agreement, the community has to set up a community-owned organization or Community Legal Entity.

The community legal entity will own the oil palm farm, and is responsible for the PPA and the conditional income. The community will own the community legal entity.

2. Who will make decisions on the community oil palm farm, on behalf of the community?

The community will make the major decisions about the community oil palm farm providing these are consistent with the PPA and loan terms and conditions. The Community Legal Entity, formed by the community, will be responsible for employee identification for the community oil palm farm, will be the contact for GVL when making day-to-day decisions about the farm, and will be responsible for the PPA and the annual conditional income. The Community Legal Entity will report periodically to the entire community.

3. What will be the agreement between the Community Legal Entity and the rest of the community?

Each community will decide how its Community Legal Entity will work, and will write this down in its own **constitution**. The constitution will explain what the organization can and cannot do.

4. Will the Community Legal Entity be a Cooperative or a Corporation?

Each community will decide on the organizational structure and ownership structure of its own Community Legal Entity.

5. How will the Community Legal Entity be organized and who will be in it?

Each community will decide how many people should be in the Community Legal Entity, who they are, and how they are organized. It will most likely consist of a board, and one or more committees. The community will be given support to develop the most suitable structure.

6. How does the Production-Protection-Agreement fit into the constitution?

The community constitution will explain how people will protect the forests, in line with the Production Protection Agreement. It will also set out how the community will deal with possible warnings, legal action or reduced income if the agreement is broken.

7. Who will manage the bank account?

Finances related to the community oil palm farm are managed by GVL while repaying the loan. The annual conditional income will be paid directly to the Community Legal Entity and will not be managed by GVL.

8. How will the yearly conditional income be distributed within the community

The community constitution will explain how the yearly conditional income will be used or shared across the community. The community will decide how much it wants to spend on community projects, and how much will be shared between the community households, in cash or in rotating loans.

9. **The community has no experience in managing a large amount of money. How will IDH and its partners help the Community Legal Entity to manage the conditional community income?**

Partners will train and help the Community Legal Entity to set up a financial record-keeping system, and work with them to make sure they know how to use the system.

10. **How will decisions be made so that everyone benefits in a fair way?**

It will be the community's responsibility to make sure that decisions are made in the best interests of the community. However, IDH and its partners can help the community through training and support to select leaders that can work on the community legal entity and the constitution on behalf of the community, and develop a plan for fair sharing of the benefits.

11. **How will the Community keep receiving information from the Community Legal Entity?**

There will be regular meetings. The community members that will lead the Community Legal Entity will be trained to carry out meetings in a way that lets everyone have their say. Partners will help the community do this initially.

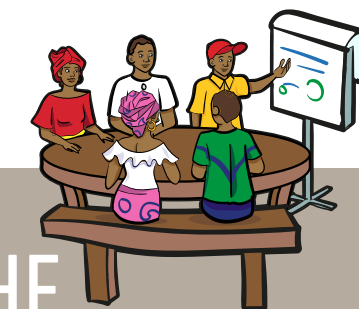
12. **Can the people in the Community Legal Entity be held accountable?**

Yes. Each community will write its own constitution. The constitution must clearly state how the community will hold the people in the Community Legal Entity accountable for finances.

13. **What if the people in the Community Legal Entity are corrupt? What can the community do?**

Corrupt practices that result in a small number of people taking community money out of the Community Legal Entity revenues for their own benefit will lead to a big risk that the community oil palm farm will fail. When the community is writing its constitution, it should include what will happen if there is corruption or mismanagement, and how to deal with people that are involved in corruption. It is very important that the community knows how corruption might take place and learns how to spot it to minimize this risk. Part of the training that will be given to community members will be to help them spot signs of corruption as early as possible and to respond to corrupt practices.

Frequently Asked Questions



LOAN AND FINANCING FOR THE COMMUNITY OIL PALM FARM

1. **How much will it cost to establish a community oil palm farm?**

The cost of establishing a community oil palm farm will be between US \$6,500 and \$8,500 per hectare. For example, a 500-hectare farm will need a loan of between US \$3.2 million and \$4.25 million.

2. **Who will provide the loan to the community?**

Investors will provide the loan. They will require **1)** that GVL manages the farm; and that **2)** there is a PPA and forest protection plan.

3. **How can we be sure that the community will make money from the COP?**

The PPA and the COP part of it are being designed very carefully to give the community every chance to make money. We cannot guarantee the community will make money, but we will do everything we reasonably can to ensure that it does make money. It is in the interests not just of the community, but also the oil palm company, the Government of Liberia and the banks providing the loans that the PPA and COP are successful.

4. What conditions have to be met for a community to get a loan?

- ▶ The community needs to provide suitable land and make sure there is sufficient land for (future) farms (see FAQs on Community Oil Palm Farm).
- ▶ The community must sign a Production-Protection-Agreement,
- ▶ The community must also set up a Community Legal Entity (see FAQs on Community Legal Entity) to sign the loan agreement and make decisions on the community oil palm farm on their behalf.
- ▶ Finally, the community needs to plan ahead on how the conditional income from the farm will be shared, and how the Forest protection plan will be carried out.
- ▶ The decision to set up an oil palm farm must be something that's agreed on by the majority of the community.
- ▶ Partners supported by IDH will work with the community to support informed decision making.

5. What is the plan for paying back the loan?

Repayment of the loan will start 3-5 years after planting, because before that date there will not be enough Fresh Fruit Bunches. The actual amount repaid with each harvest will change from year to year depending on the price of the Fresh Fruit Bunches.

6. How much will the community be required to pay at a time?

Besides the salaries of employees, and the annual conditional income, all other income from selling the Fresh Fruit Bunches will go to repayment of the community loan. This is to ensure that the loan is repaid quickly.

7. How long will it take to pay back the loan?

The community is expected to pay back the loan within 15 years. But this will depend on several factors, especially the price of the Fresh Fruit Bunches and Crude Palm Oil on the world market. Other factors include how well the palm trees are producing fruit, and the cost of bringing fertilizer to the palm trees.

8. What will happen if the community fails to pay back the loan?

GVL will manage the farm until the loan is fully repaid. Because GVL has experience managing oil palm farms to produce high yields and quality fruits, it is expected that the community will be able to pay back the loan. If something unexpected or terrible happens, it may take longer to repay the loan. If there are such unexpected events which are not the fault of the community and outside their control, the investors, GVL and the community will need to review options and negotiate so that in the end the community will be able to pay back the loan.

9. By when can the community expect to start earning money?

Already during the clearing and planting of the community oil palm farm, people will be employed on the farm and will receive salaries. The conditional US\$ 30 to US \$50 per hectare of community oil palm farm will also start directly, in the first year.

10. Will there be costs from GVL for using its equipment to clear the land?

Yes. Anything that costs money will be charged to the loan the community takes out. The machines that are used to clear the land and the fuel/diesel they need will be charged to the community oil palm farm account.

11. Why can't the community just brush or clear the land the way we brush our own farms?

To make sure the farm is productive, machines will need to be used to prepare the land. Firstly, to clear 500 hectares (more than 1,200 acres) of land is a lot of work and will take a lot of time the traditional way. Secondly, the land cannot be cleared by burning. Third, the cleared and stacked brush is used as natural compost to help the young oil palms grow.

12. Will GVL provide housing for workers on the community oil palm farm?

No. The workers will be employed by the Community Oil Palm farm, not GVL. Also, the workers will be mostly community members, so they will stay in their own homes.

13. Will GVL provide schools and healthcare for workers on the community oil palm farm?

No. Remember that any expenses the company makes will be charged to the community. These costs are not included so that the loan amount does not get too high.

14. Who will be responsible for compensating lost crops in the community oil palm area?

The community will discuss this and will decide together. Any decision that is reached will have to be acceptable to each farmer affected. If an individual farmer decides he or she wants compensation for their crops, the community will have to pay for it – the land mustn't be cleared by force or without compensation.

15. Why can't the palm oil companies continue making their palm farms and signing MoUs with the community?

They still can. The Government of Liberia and palm oil companies agreed to develop the community oil palm program. However, it is the community's decision whether to get involved or not – no community will be forced to participate.

16. How will members of the community benefit from the community oil palm farm?

The main benefit is that the community will have its own oil palm farm and will not give its land to a company for a long period like 60 years. This also requires that the community is confident that the managers of the Community Legal Entity are working for the benefit of the community and not using their positions for corrupt purposes.

There will also be salaries for community people directly employed on the farm.

In addition, the community receives between 30 US\$ to 50 US\$ per hectare of community oil palm per year, on the condition that the PPA agreement on forest protection is complied with. With this income, the community can decide what types of development projects it wants to carry out to improve the living conditions of the community members.

After 15 years, when the loan has been repaid, the community will then receive all payment from its sales of Fresh Fruit Bunches. The FAQs on Financing provide more information on the loan, the loan repayment the benefits and the risks.

For more information, comments or feedback, please contact:

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