

Profile of Company-Smallholder working arrangements for Colombian palm oil company Oleoflores, operating in Tibu & Maria La Baja regions of the country

This profile analyzes the approach of Colombian palm oil company Grupo Empresarial Oleoflores to building strategic alliances (Alianzas) with smallholder producers across two regions of the country. It focusses on both the positive aspects of this model and on areas where there could be improvement. The intention is not to criticize any particular aspect, but rather try to capture learning for the benefit of all.

1. Background

1.1 Tibu region

Located in the Catatumbo basin on the border with Venezuela, this region has important biological diversity with remnant tropical rainforest and significant natural resources. Despite this, due to the prolonged civil conflict, it is a region in which a large proportion of the population live in absolute poverty with the highest rate of illiteracy in the country.

Groups operating outside the law have been a destabilizing factor for indigenous peoples and small farmers, favouring the establishment of coca crops and consequent forest degradation in the region. The war to dominate the territory and capture its wealth, coca crops and border-privileged-position has caused serious breaches of international human rights with the inevitable consequence of forced displacement.

Major environmental problems suffered through the years include: bombing of the Cano Limon-Covenas pipeline with substantial crude oil spills into the fragile ecosystem; aerial spraying of coca crops and the use of large quantities of chemicals for the production and processing of coca. All these put the ecosystem, its goods and services and the species within it, at risk.



To promote recovery of the region the Colombian government promoted the planting of alternative crops, particularly oil palm. Because of the forced displacement, allegations have been made regarding ownership of land where the palm plantations have been established, suggesting that some palm growers have settled on lands lost by local communities, who were often displaced by violence. Now oil palm is the crop of greatest economic importance in Tibu, although there is also an important petroleum industry.

1.2 Maria La Baja Region

The area has appropriate conditions for growing palm and has a privileged geographical location due to its accessibility and proximity to city centers (like Cartagena). However, it is an impoverished region which has suffered from the presence of armed groups operating outside the law (guerrillas and paramilitaries). As in Tibu, control of land has been disputed by the various armed groups and the area became a corridor for the introduction of weapons, drug trafficking and the mobilization of these organizations on the Caribbean coast. Also, there were serious violations of human rights and consequent displacement of farmer communities in the area. Since 2007 the actions of armed groups have declined and national and local government have worked to stabilize and rehabilitate the area.

Production of rice and livestock have been the principle land uses, along with production of some other subsistence crops. Rice production was once more extensive, but its economic viability has been diminished by economic liberalization and further hit by recent extreme climate events. Many farmers found themselves highly indebted, often forced to default on their loans and consequently barred from further access to finance. This generated a lot of disbelief and distrust in farmers until Oleoflores established productive and social alliances (Alianzas) with these farmers to provide technical and financial backing to resume production, this time with oil palm.

Today security has improved, many families returned to their lands and were helped to rebuild and restart their production. However, there are still high levels of poverty. This region is becoming important for palm oil production but also for other crops such as cassava, yams, avocado and cocoa, while rice and livestock production remain important. There is a large irrigation system, developed by previous governments primarily for rice production, now used for the oil palm plantations.

2. Productive and Social Alliances (Alianzas) Model in Tibu and Maria La Baja

The Oleoflores Group has established and maintains these company-smallholder partnerships in both regions. Hacienda Las Flores, which is part of the Oleoflores group, serves as implementing partner on the ground. The general process may be described as follows:

2.1 Demonstration and dissemination of the model

The project started with the selection of the areas with soils suitable for growing palm and then the implementation of demonstration plots or model farms. For Tibu and Maria La Baja, 10 and 5 model farms were established respectively. These farms were strategically located, owned by farmer leaders who were influential people in their communities. These pioneers helped conceptualize and test the model for collaboration, inspiring other farmers in the region. Tibu currently has 17 smallholders' associations (Asopagdos) and Maria La Baja has 12 (Asopalmas).

Once the first palm oil plantations were established on these model farms and began to demonstrate returns, the Alianza model was introduced to the wider community by Hacienda Las Flores. Once the project was presented to a community, and smallholders enrolled in the alliance, a

technical team would conduct visits to each smallholder to carry out an assessment of the property and develop a work plan.

Table 1: Alianzas 2000-2016

Characteristics	MLB	Tibu
Planted area (ha)	8,000	15,600
# of smallholders' associations	12	17
Smallholders (#)	781	917
1-10 ha (#)	696	811
10-20 ha (#)	48	75
20-50 ha (#)	37	31
Mills (#)	1	1 Under construction

2.2 Formal establishment of Alianzas

The anchor company, in this case Oleoflores, led the legal constitution of the smallholder associations (independent farmers associated in the project who would undertake palm oil production). They developed the business plans and registered the projects. Subsequently, the company would provide the smallholders with technical assistance to facilitate access to finance (through 12-year loans), with mutual agreement on long term contracts for purchase of fruit. The company also provided legal support.

The first partnerships were established in 2000 and 2004 in Maria La Baja and Tibu respectively. Subsequently these Alianzas became a national model for collaboration between company and smallholder to promote production, incorporating access to finance, training in agricultural practices and technical assistance to support agro-business.

2.3 Financing

The Colombian government has a clear system of economic cooperation for Alianzas. It actively seeks to mobilize resources to revitalize economically depressed areas with palm cultivation. In the case of Tibu, international aid was made available to support establishment of Alianzas with the aim of promoting palm as an alternative to illegal coca crops (replacing 330 hectares of coca with 1 100 hectares of oil palm) and to obtain the RSPO certification.

2.3 Technical Support

Hacienda Las Flores provides all technical support services and training to the smallholders. It has extensive technical expertise, from producing their own high productivity seed (Dami-Las Flores) to the phytosanitary support and its own laboratories for quality control. The technical support provided by the Oleoflores Group is one of the key success factors of the Alianzas.

However, this system is not free of criticism. There is little level of involvement of the smallholders in the value chain and Hacienda Las Flores profits from the charges it levies for the technical services provided.

2.4 RSPO Certification

There is growing interest among Colombian agribusiness palm growers to obtain the RSPO certification.

A pilot experience through a 3-year RSPO certification process in Tibu was completed through a public-private partnership with the Dutch embassy, with an investment of € 4.5M euros. This funding provided the technical and economic resources for the certification process. The supply chain certification of the Codazzi mill was awarded in 2014, and in 2016 256 smallholders were certified. The plan is to certify 150 additional small producers in 2017.

In Maria La Baja the process of implementing the standard (RSPO) has just begun. The process may take longer, since external resources have not yet been mobilized.

3. Analysis of Strengths, Weaknesses, Opportunities and Threats

Strengths

- Oleoflores has a solid technical base the - "know how" - the agro business palm cultivation reflected in productive partnerships in Tibu and Maria La Baja.
- In Maria La Baja the first smallholders to join the Alianza are also shareholders of the mill, thus creating a sense of ownership and responsibility within the business.
- Excellent dissemination strategy for the Alianzas initiative amongst smallholders.
- Working experience and a successful partnership model in complex socioeconomic areas.
- Producers engaged in partnerships are relatively confident of its success and transmit it to other growers.
- There is a sustainability team with a lot of technical and operational expertise in the area of RSPO certification.

Weaknesses

- Within the Alianzas there is still has space to discuss and clarify the sharing of benefits between the parties.
- Financial illiteracy of smallholders impairs their handling of the financial side of their business, which can impact their cash flow.
- Smallholder loyalty to their Alianza is not universal. Some smallholders receive the technical and financial support and selling to another buyer.
- It seems that there is no long-term business plan for smallholders to generate additional benefits to grow their farming enterprises.
- The lack of a business incentive plan could compromise loyalty for future producers.

Opportunities

- Both in Tibu and Maria La Baja, Oleoflores has the capacity and experience to establish Alianzas and expand the business model, but it is basically the only anchor company positioned to do so.
- There is space to incentivize the smallholders to extend their engagement down the value chain, e.g. in the transportation of the fruit to the mill.
- There are opportunities to entice of new generations into palm business.
- It may be possible to engage regional corporations, environmental organizations and international buyers to support future sustainability initiatives.

Threats

- Fluctuating international price of palm oil, impacting on price of palm fruit
- Shortage of water resources
- Environmental and social issues related to palm oil expansion in the sensitive ecosystems of Tibu and the upper regions of Maria La Baja.
- Illegal armed groups in the area of Tibu still represent a risk for loss of capital, transport systems, etc.
- Lack of resources preventing the regional environmental organization (Corponorte) in the area of Tibu from supporting sustainable development and efficient environmental management (e.g. through good management of logging permits).
- Once palm companies achieve RSPO certification, there will be pressure to keep up with all aspects of sustainable production. There is a possibility that small producers could struggle to maintain and demonstrate compliance with performance standards and could find themselves forced out of Alianzas if they fail to meet certification requirements, creating new socio economic divisions and pressures.

4. Lessons for Sustainable Company – Smallholder Working Arrangements

4.1 Experiences - Lessons Learned

I. The introduction of the concept of strategic alliances (Alianzas) via local model farms and through community leaders has been crucial for the replication of the scheme, leading by example and creating cohesion among oil palm growers.

II. The commitment of the Colombian government and Oleoflores to finding resources for the development of the alliances was a critical factor.

III. Alianzas in the palm oil sector have contributed to the change in land use from illegal crops (coca) by linking smallholders to an agribusiness value chain that could offer secure long-term income, with the backing of a processing company.

IV. The main social achievement in Tibu has been the change of culture that helped replace coca crops by oil palm. This thanks to state presence, financial resources and national and international policies, and support in crop substitution programs (USAID).

V. Alianzas can server as a platform for the implementation of RSPO certification, with farmers already organized to benefit from ongoing training, to understand the business case and the importance of certification.

4.2 Overall Conclusions

- Agribusiness entrepreneurs, small and medium producers and governmental financial institutions have found in Alianzas not only a business opportunity but an alternative livelihood option to replace illegal crop production, repairing local communities affected by violence and improving the socioeconomic conditions in remote rural areas in Colombia.
- The economic support of international organizations and the state have contributed greatly to encourage agribusiness to invest and work with small and medium producers who might not otherwise benefit from this agro-industrial process.

