

## Profiles of Company-Smallholder Working Arrangements for five Ghanaian palm oil companies

The following cases of smallholder integration in palm companies or estates in Ghana are examples of successful models to collaborate with and help develop sustainable models for interaction with smallholders.

### 1. Benso Oil Palm Plantation (BOPP) - Management Contract Model

#### Background



Based at the Adum Bansa Estate in the Mpohor District in Western Ghana, BOPP has been running a 1,650 hectare oil palm smallholder scheme since 1994/96 with 438 participating farmers drawn from surrounding communities. This scheme operates alongside BOPP's 4,738 hectare nucleus plantations.

Agence Francaise de Developpement (AFD) provided the funds through the Govt of Ghana(GoG)/African Development Bank(ADB) while BOPP provided the technical support in a tripartite agreement between farmers, the bank and BOPP. GoG bears the forex risk while ADB bears the commercial risk.

#### Management Contract Model

##### Agreement and support

The smallholders have time limited land use rights of up to 25-years, clearly stipulated in the agreement. The smallholders committed to sell their Fresh Fruit Bunches (FFB) to BOPP (exclusively) while BOPP provides the technical support to the farmers. BOPP required that smallholder farmers maintain their farms in accordance with BOPP's standard operating procedures (SOP) under the supervision of BOPP management.

BOPP allocated the plots to the farmers once the land preparation was completed and farmers were involved in the planting and maintenance of their farms thereafter. The annual yield of these farmers is currently of 14 to 15 tonnes of FFB per hectare. The farmers are responsible for harvesting while BOPP ensures the collection/weighing and transport to the mill. Side-selling is practically zero because there are not access road roads to take the fruits elsewhere without passing through BOPP's gated security check points. Up to 25% of the processed fruit comes from the smallholder farms, which is quite significant to the mill in terms of asset utilisation.

BOPP, together with its smallholders, recently attained certification from the Round Table on Sustainable Palm Oil (RSPO), becoming the first company in Ghana and West Africa and only the second in Africa to attain such certification. This certification provides assurance that the plantation is doing business in an ecologically, socially and economically responsible manner. From 2010 onwards BOPP has been jointly owned by the State and Wilmar.

### Conclusions

#### Pros

For the smallholders, this project meant increased income, access to healthcare and education, access to company support in the form of technical assistance, financing and facilitating community development.

Farmers who have finished paying up their development loans are soon to have some percentage of their revenues deducted into an investment fund, so that in 5 years from now when replanting should be starting, they will have some source of income from this investment fund.

#### Cons

In practice, it has turned out that smallholders did not always have enough capacity to take care of the daily maintenance of the land. Where this is the case BOPP now engages contractors to work on smallholder's farms. In addition, this scheme entails high input costs for the company and requires substantial training inputs.

#### Lessons learned

Capacity building of smallholders during the development phase of the palm oil plantation phase is crucial for the transfer of management responsibility and sustainability.

## 2. Buabin Oil Palm Outgrower Project (BOPOP) - Outgrower Model

### Background



This is a farmer-based plantation project jointly sponsored by AFD and GoG.; with Twifo Oil Palm Plantations (TOPP) Limited as technical operator together with the farmers in a public private partnership arrangement.

Set up with the goal of poverty alleviation, this project has enabled TOPP to develop a substantial new palm oil supply base through the integration of smallholders into its supply chain. Key elements in the project implementation of the strategy were to link farmers to the market via TOPP and to create and strengthen farmer associations under a Ministry of

Agriculture Programme for the Promotion of Perennial Crops in Ghana. The Crop Services Directorate of the Ministry of Food and Agriculture had oversight responsibility for the project. The CSIR-Oil Palm Research Institute were also designated as a technical operator for the project. The National Investment Bank (NIB) were designated as the Financial Operator, administering the project credit component. The Consortium GOPA-Nkum was recruited to build the capacity of the farmers' associations over a two-year period. The objective of BOPOP was to expand oil palm cultivation by 3,000ha in Buabin and surrounding villages in the Central region of Ghana. The project eventually invested and completed planting of 3300ha for 986 farmers.

### Outgrower Model

#### Farmer selection

The Buabin area was also selected to align with a wider government intervention to foster economic development and improve the standard of living for local people. Farmers located around a 50 km radius from the TOPP mill were invited to devote land for the project. A soil suitability analysis was carried out to assess the suitability of the land to support oil palm cultivation.

An outgrower scheme was established as it appeared the most convenient model to address numerous challenges evident at the time in the development of new nucleus plantations: the area satisfied the technical requirements for 3,000 hectares (economically viable given transportation and management costs to the company) of oil palm development, the population lacked other opportunities for economic development, and the chief (the local customary leader) as well as the people demonstrated strong commitment to the project. The chief envisaged this as an engine for economic development in Buabin, similar to that which he had witnessed in the area surrounding the TOPP mill. Moreover, to meet its demand for crude palm oil, TOPP had also to increase its supply base and expanded its capacity.

#### Agreement

As an "outgrower project," farmers maintained ownership of the land. They entered into a contract with the company to agree the size of the plot they were to plant with oil palm for the project and commit to selling the entire palm fruit yield to the company. People living in the villages in the project area have obtained their land either through the Chief, for those people who are indigenous to the area, or through sharecropping arrangements or purchasing land, in the case of migrants who have settled in the area. Through the outgrower application process and, ultimately, registration of farmers' lands for the project, BOPOP supported the clarification of land tenure, which benefited the smallholder farmers.

#### Technical assistance and finance

In order to avoid any kind of deforestation, only lands in current or previous agricultural use were considered. The outgrowers maintained ownership of the land and management of their farms, but were committed to sell to TOPP in exchange for technical support. Through this project, farmers received loans from the capital invested by AFD and the government to cover pre-harvest costs. Repayment of the loan starts at the sixth year after planting. Loans are repaid from revenue generated from FFB sold to TOPP. NIB is responsible for the loan deductions. Within its technical support to the smallholders, TOPP provided seedlings high yielding of high yielding varieties and some contract services, while farmers chose whether to clear and plant themselves or to use contract labour.

The project funding respectively came from:

- AFD (65.2%: plantation development, roads, support for Farmer's association, applied research)
- Government of Ghana (MOFEP and MOFA) (19.3%: plantation development, roads)
- TOPP (11.1%: roads and extension services)
- Farmers (4.4%: plantation development)

## Conclusions

### Pros

- This project allowed beneficiaries to maintain ownership of their land and facilitated clarification of land tenure.
- Through the project, TOPP was able to transfer cutting edge technical knowledge on planting methods from the plantations to the farmers in BOPOP.
- This proved an innovative and responsible model for plantation expansion through large scale smallholder plantation management.

### Cons

- Bureaucracy in the outgrower scheme impeded productivity.
- There was a felt need to have an association/NGO involved to facilitate discussions.

### Lessons learned

- There is not one engineered solution for working with small farmers.
- Companies need to be adaptable and flexible enough to adopt new models in new contexts. A single global model is not viable for integrating smallholders into supply chains.
- Agribusiness multinationals require a partner, or locally embedded subsidiary, with local knowledge and international development expertise as a facilitator to bridge the gap between standard corporate models and the complexity of working with small farmers.
- Public Private Partnerships provide opportunity for investment beyond oil palm development. For example, this project supported construction of 7km of feeder roads and 253.5km of farm roads to enhance transportation of FFB

### 3. Juaben (JOPOCOS) - Farmer Cooperative Model

#### Background



The Juaben Oil Palm Out-growers Cooperative Society (JOPOCOS) is an association of 627 oil palm farmers from 25 communities of the Juaben traditional area of the Ashanti region of Ghana, covering 1,088 ha of land (all within 40 km of Juaben). JOPOCOS had its genesis in 1998 when the Juaben Farms Ltd. (JFL), a subsidiary of Juaben Oil Mills Ltd. (JOML), encouraged and assisted nearly 85 farmers to cultivate 200 hectares of oil palm. Under a World Bank agriculture program (AGDIV), JFL advanced cash loans, seedlings and other inputs to the farmers against fruits to be supplied to the mill once plantations came into production. The then out-growers formed cooperatives (3-9 representatives per community) with the umbrella body being JOPOCOS, which represented them and liaised with the Mill. The farmers have succeeded in using the co-operative as a guarantee for assessing diverse kinds of loans and grants – as outlined below.

#### Farmer Cooperative Model

In 2009, JOPOCOS wanted to take advantage of unmet market demand in the processing facility of Juaben Oil Mills (the then sole oil palm processing facility in Ashanti region of Ghana) but lacked the required management and organizational capacity as well as the technical ability to educate farmers on best agronomic practices. A \$100k poverty alleviation grant of from the United States African Development Foundation (USADF) was secured to enable JOPOCOS to build the capacity of its extension unit to impart skills and knowledge to its farmers for better managements of farm operations. This grant was also intended to assist JOPOCOS develop an efficient operational system, improve the technical and managerial capacity of its members, and expand the number of farmers receiving services as well as augment its commercial capability and business competitiveness.

#### Agreement

After having their farm inspected, out-growers signed a contract under which the Juaben Oil Mills Company provides them with technical support, inputs and services. In return for the services, the farmers are contractually obliged to sell their FFB to Juaben Oil Mills. The farmer cooperatives also pay farmers dividends- their main source of income- and provided loans to assist farmers in diverse ways, including payment of school fees.

#### Finance

The initial funding for the cooperatives came from the following third parties:

- US\$700,000 loan from Government of Ghana (Ministry of Agriculture, AgDiv project) for seedlings, fertilizer and other inputs.
- US\$100,000 loan from Government of Ghana for fertiliser.
- US\$100,000 grant from USADF for capacity-building and to pay for office and additional staff
- Also from membership levy and dues of US\$1 per acre.

## Conclusions

### Pros

- Cooperatives effectively represented the out-growers.
- Cooperatives ensured steady income and loans for farmers – e.g. for schools fee payment and housing.

### Cons

- The mill is situated too far from the out-grower farms, so to get all fruits to the mill on time for processing is problematic.
- Side selling of FFB by farmers who wish to avoid deductions from the value of FFB supplied to the mill to repay cash loans, seedlings and other inputs advanced by the company.
- Contracts between company and farmer were not clear in terms of roles and responsibilities.

### Lesson learned

- Contracts need to provide more clarity on roles and responsibilities.
- Aim to include farmers closer to the mill and limit inclusion of farmers located too far away.
- Farms should be small enough for farmers to effectively manage.

## 4. 8 Degrees North (8DN)<sup>1</sup> - Hybrid Model

### Background



8 Degrees North (8DN) is a privately owned company set up to produce industrial quality crude palm oil sustainably in West Africa. Together with its partners, 8DN is establishing an ethical business with farmers in Ghana to make a real contribution to sustainable development in the region.

### Hybrid Model

The company started in May 2012 and operations began in April 2014 in Duayaw Nkwanta in the Brong Ahafo Region of Ghana. It is a Mill business with no nucleus estate – so this has to be an inclusive smallholder business model. The mill has been strategically located to take advantage of some of over 20,000ha of small-scale *tenera* palm oil farms set up under a government program - the President's Special Initiative (PSI) on oil palm in Ghana.

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<sup>1</sup> A fully owned subsidiary of the Natural Habitats Group

## Agreement

The model is based on a partnership with independent smallholder farmers who planted palm oil under the PSI project in the period of 2004 – 2009, but had not focused or in some cases entirely abandoned their palm farms due to lack of market access. The company has two schemes with the smallholders: managed smallholder partners and independent smallholders. The company has a set of criteria for selecting smallholder to join its programme. Based on the set of criteria, the smallholder could become partners to the mill or independent.

## Technical assistance

Smallholder with *tenera* oil palm and at least 1ha of plantation could apply to become a managed partner. For the managed smallholder partners, the company does a land remediation, improvement and management of their farms. After careful explanation of the conditions and terms the farmer is invited to sign a management contract. Under the terms of the management contract the land remains the property of the smallholder while management is handed over to 8DN. 8DN undertakes harvesting, upkeep and maintenance, fertilizer application and other services.

Alternatively, as a non-partner/independent smallholder, the farmer can choose to manage their own farms and harvest the FFB for sale to the company. The company has plans to set up internal management system to regulate the farm operations of non-partner farms and to provide them with technical assistance and services required to improve on their production practices. The company's smallholder supply base is about 1,200ha. The company plans to extend to other districts with a view to working with a further 6,000 ha of smallholder farms. Currently pricing is based on the competitive rate charged by other big oil mills, but it is within 10% of the world price of CPO.

## Conclusions

### Pros

- The company has a constant source of fruits and same day collection reduces the Free Fatty Acid % of Crude Palm Oil production.
- Farmers have a constant flow of cash into their bank accounts every 2 weeks.
- Farmers also have access to selected high quality seedlings, agriculture inputs and necessary equipment.
- This system provides the company with guaranteed access to an FFB supply for their mill.

### Cons

- Managed smallholder partners pressurize the company when they are not satisfied with the standard of farm management.

### Lessons learned

- Potentially a very good model for smallholders as their market is secured and their produce generates a constant flow of cash.
- Farms are managed to the best international standard possible.
- Older farmers are able to access help to maintain their farms.

## 5. Serendepalm - Mill-based model

### Background



Serendepalm is a sister local company of the umbrella organization, Serendiworld, LLC, a California-based company owned by the Bronner family and the majority shareholder in all Serendiworld projects. Dr. Bronner's Magic Soaps, a family-owned company based in Vista, California, is the best-selling brand of natural soaps in the

United States. In 2005, it started building its own supplies and/or working closely with partner projects that share their vision. Since the mill began production in 2008, Serendipalm has become the world's largest FTO palm oil project working exclusively with smallholder farmers.

### Mill- based Model

In 2006, Dr. Bronner's built a commercial Fair Trade & Organic (FTO) supply projects in Ghana, managed by local sister companies. With support from the NGO Fearless Planet, Serendepalm company limited found a host town and partners near Asuom in the Eastern Region of Ghana. The company built a small-scale palm oil mill using traditional processes — but with better facilities and more efficient, safer equipment. It began recruiting local smallholder farmers to participate in its organic and fair trade project. It established an internal control system with young professionals to teach, train and support the farmers to adhere to international best practices.

### Agreement

The company is buying palm fruits from over 1000 family farms with oil palm plots averaging seven acres in size. The company pays farmers fair prices for their palm fruits, including an organic premium.

### Technical assistance and Finance

The company supports farmers with mulch, manure and training on organic agriculture, thus helping them to improve soil fertility and profitability. There is a deliberate inward growth in scale of operation. The company provides loans to staffs and farmers to plant or increase their farms. Farmers who joined with 1 acre are now having between 5 to 10 acres. The company is also the largest local employer in an area that has traditionally provided few reliable jobs for its growing rural population. The 200 workers in the company's oil mill, primarily unskilled local women, enjoy working conditions and compensation uncommon in this industry. Workers appear very committed to the company.

## Conclusions

### Pros

- Demonstrable ability to translate inefficient low productivity small scale processing operations to commercially viable and efficient medium scale operations supplying high end markets.
- A quality management system that provides high end services (accounting, management, quality control, operations management, logistics, data management, etc.) that hitherto, small scale processors could not afford to organize.
- Smallholders are able to access technical assistance and extension to increase productivity, income and compliance with international standards
- There is effective organization and management of producers and active participation of smallholder farmers in the company providing transport and other services and also supporting the implementation of social projects.
- The Internal Monitoring System obtains reliable data on palm oil production by smallholders
- There is attraction and interest from young people in the enterprise of farm management and mill business (both skilled and unskilled).

### Cons

- The success of the business model is largely dependent on ability to access premium and high quality niche market to pay higher price and offer high level technical assistance.
- A lot of patience, commitment and skills are required to work with processors from the informal sector

### Lessons learned

- With an effective management system, it is possible to organize and integrate independent smallholders who are not organized into major supply chains and build a strong bond, with trust and loyalty between smallholders and company.
- Effective management, long term contracting and market incentives – e.g. higher price premium are critical elements in this model.

## Key lessons from Ghanaian schemes

- Most Ghanaian schemes have nucleus estates, smallholders, out-growers and independent suppliers. **There is a large variation in the amount of support provided by companies which depends on the type of contracts and relations between the agro-industry company and the smallholders.** In all cases, it seems most effective for extension services and inputs (fertiliser, seedlings) to be provided by the company/mill and also for the company/mill to be responsible for transport of the FFB.
- Access to technical support, improved seedlings, other agricultural inputs and even cash advances are evidently key determinants in which farmers get involved in oil palm production. By controlling this access and linking it to land inspection and approval, companies have an opportunity to exercise a large measure of control over risks around deforestation and tenure disputes (ref BOPOP example).
- Best Management Practices are adopted and implemented by smallholders
  - Where the cooperative is offering technical assistance to its members and liaising with the mill or company; or
  - Where there is effective internal control and management system in place for technical assistance, follow up mechanism and monitoring processes in place; or
  - Where company or mill directly manages the farm on behalf of the farmers and gradually transition it to the smallholders
- Capacity building of smallholders during the development phase of the oil palm plantation is crucial for the gradual transfer of management responsibility and sustainability to the smallholders. Capacity building should not be limited to agronomy and post-harvest practices but also business and small farming enterprise development. **This is because smallholders and out-growers often have poor technical understanding of agronomy, book keeping and contractual requirements.**
- Companies, smallholders, governments and other key stakeholders, such as financial institutions, have found a business case for working together to improve the sector in a win-win relationship. Where agreements have been carefully planned and adequately regulated by governments, such partnership schemes between agro-industries and oil palm smallholders have been profitable for all stakeholders. They have fostered social cohesion and limited further encroachment of agro-industries into the primary forest.
- Commitment of government to provide the enabling environment and facilitating Public Private Partnerships is key to the growth of the industry and also provides opportunity for investment beyond oil palm development.
- The 8DN system of partner growers and the JOPOCOS dividend payment system might offer some further interesting possibilities for better vertical integration and therefore improved efficiency.

- **There have been widespread problems of side-selling to avoid loan payments and to secure higher spot prices for FFB.**

**To avoid side selling companies should:**

- Help to develop effective cooperative governance and internal management systems to build trust and loyalty
- Be transparent in negotiations on price and show commitment to long term supply contracts and pricing
- Maintain flexibility to adjust prices to short term changing market conditions, the timing of payment for FFB and availability of cash at point of sale.
- Consider allowing smallholders to sell a small proportion of FFB to other buyers, or offer long term commitment and contracts to build trust, offer higher prices or a combination of these
- Move to direct involvement or active supervision of harvesting of FFB (current harvesting practices, especially for independent smallholders, have led to considerable loss in yields)
- Leverage premium markets where possible to offer higher prices to producers and so maintain their market share