5.2 Boosting investor confidence: the role of corporate social responsibility

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Introduction

Africa is witnessing a growing interest on the part of investors. This is clearly demonstrated by the sovereign wealth funds, as well as sector specific investment managers and institutional investors that have invested increased capital on the continent. This includes investments in natural forest management and plantation forestry.

Sustainable management of forest and plantation resources is enormously important to investors, especially since pressure on land is leading to an increased focus on land acquisition and cooperation with local communities. This article illustrates how strategic Corporate Social Responsibility (CSR), if developed and implemented by a forest plantation manager, can mitigate some of the social, operational and environmental challenges experienced in a greenfield plantation investment in Africa. The article is based on the experience of the German company global-woods AG (GW) in managing a pine plantation investment in Western Uganda.

Background

For more than a century, Uganda, like many other countries around the globe, has seen decreasing forest cover and an increasing demand for timber. In the 1960s, in order to respond to this trend and to ensure a sustainable timber supply for future generations, Uganda demarcated national central forest reserves for commercial tree growing. For a multitude of reasons, sustainable forest management was never applied and the areas were left to uncontrolled logging and other land-use practices.

In 2002 Uganda, through its National Forestry Authority, granted a tree-farming licence for the Kikonda Central Forest Reserve to GW. The licence allows GW to plant and harvest trees for a period of 50 years in return for an annual fee. The reserve comprises a total...
area of approximately 12,000 hectares (ha). It is divided by a highway and has an enclave with settlements in its centre, bringing the boundary between state land earmarked for tree planting and private land used for agriculture and cattle rearing to nearly 100 km.

GW was founded to develop sustainable forestry projects in developing countries and has always embraced the concept of social and ecological responsibility. It is a relatively small company, and did not formalize CSR through extensive policy documents and surveys. Its CSR was instead based on an approach of working closely with local staff and being guided by general principles of responsible forest management, such as those of the Forest Stewardship Council (FSC). From the beginning GW wanted to listen closely to the needs of the people living around the estate and — as much as possible — give them a say in the management of the reserve. In practical terms, the staff recruited for leading positions in the company had either lived in the area or settled in villages around the forest. Meetings with community representatives were held at regular intervals and countless talks took place on an informal level on the roadside, in marketplaces and wherever people got together.

A limited livelihood assessment was conducted in 2005; subsequently, a rural development programme was put into place in the villages neighbouring the Kikonda estate. The programme was supported by German development aid (SEQUA). It included training for forest graduates and local farmers and a donation of more than 200,000 seedlings to local farmers. One staff member worked full-time on community outreach. The initiative also sponsored a schoolteacher and drilled a bore hole to provide water in times of drought.

By 2009, GW had planted approximately 1,500 ha of forests. There were some conflicts with neighbouring communities that continued to log and farm in the areas of the reserve not yet planted. This was illegal according to Ugandan rules and legislation.

In 2010, GW increased the annual planting target from approximately 150 to 1,000 ha. To communicate this to the neighbouring communities one staff member was dedicated full-time to the task; in addition, support activities to the communities were increased. The project sponsored more schools, conducted training in health care and herbal medicine, and distributed dairy cattle that were well suited to local conditions. At the same time, however, national food prices started to escalate and staff at the National Forestry Authority changed.

This combination of significantly higher annual planting targets and increasing food prices, along with a continuous influx of people into the surrounding area — had several effects on company-community interaction. Cattle were driven into freshly planted stands, causing substantial damage; and fraudulent land surveyors demarcated land in the reserve and sold land titles, farming licences and grazing permits. Fires for land clearance or hunting moved increasingly closer to the forest reserve and were sometimes set in conservation areas or set-aside areas.
The increased pressure on resources inside and outside the forest reserve meant that the company had to step up its CSR activities. However, increased efforts and expenditures to scale up existing activities did not seem to yield results. This led to questions from the investor about whether the CSR activities were appropriate. As a result, GW decided to develop and apply a more strategic CSR approach. This approach would address the main challenges first and would be linked closely to day-to-day operations to ensure their long-term sustainability.

One of the challenges in attracting institutional investors such as pension funds to direct investments into emerging markets is risk: its assessment, management and mitigation. In land-based initiatives such as forest plantations risks will include operational, social, environmental and governance issues, including land acquisition, labour rights, community relations and forest management certification. Forest management certification is the first and most obvious tool in addressing these potential challenges to improve the long-term sustainability of a plantation. In Africa, FSC certification is the best — and in most countries, the only — choice. The use of guidelines for socially responsible investing, including a Code of Conduct and a strategic approach to CSR, is also needed.

**From shared values to applied strategic CSR**

To date, most traditional CSR activities within companies around the world have been motivated by fear of damage to their reputation. Company managers have used CSR as a communication tool whenever an operation would have negative social or environmental impacts. The link between the negative impact and the CSR response was vague at best. Company managers are slowly coming to realize that this is an unsustainable approach to CSR.

One of the reasons for the change in approach to CSR was a discussion among scholars regarding the role of CSR and, perhaps more profoundly, the role of business. The basic idea they proposed was that a business creates more value for itself and society than from an approach that focuses only on profits.

In adapting the idea of shared values to a plantation operation in the developing world, proponents emphasized reducing risk at an operational level while improving local living conditions and creating possibilities for permanent and sustainable community development. This new approach was termed “strategic CSR.”

A key element in strategic CSR is a focus on aligning external initiatives such as community programmes with business development. Any actions taken by the company to address negative impacts on stakeholders or environment should either reduce risk or increase revenue. This ensures that external activities are embedded in the day-to-day management of the company (Figure 1).
Focusing the CSR strategy on each company's core competencies and objectives identifies relevant partners, often NGOs. Once they have been identified, the company and its partners develop the best solution to the issues identified. This link between a company and its partners strengthens the process and increases the impacts of any measures undertaken.

**Strategic CSR applied in Global-Woods Uganda**

Since previous social and environmental interventions by GW did not seem to address the increasing challenges from land pressure and lack of good governance, the company adopted a strategic CSR approach.

Where the company initially focused on “being a good neighbour,” it now also tried to ensure that interventions helped minimize risks for the company and increase the sustainability of the forestry operation. This meant making sure that the risks and impacts shown in Figure 1 were addressed in all CSR-related activities.

**Step 1**

As a first step in implementing this new strategic approach, GW held a workshop that focused on the challenges and opportunities for tree farming in Uganda. The company invited NGOs, government institutions and private companies with a potential stake in large-scale commercial tree growing in the country. The outcome of the workshop was a better understanding of the current situation for tree growers in Uganda. It was hoped that this would reduce the risks and increase the returns of plantation forestry.

**Step 2**

The company conducted a substantial survey, interviewing more than 500 people in the villages surrounding the forest estate. The key finding of the survey was that the lack of formalized rule of law resulted in significant insecurity in relation to land-use rights. This situation was made worse because of insufficient and even contradictory information about the way the forest reserve was meant to be used. The survey also revealed details about the reasons for illegal land use in the reserve; these included ill will, negligence and lack of alternatives.
**Step 3**
The company identified NGOs and development agencies who had interests aligned with its own. The company urges these organizations to plan future interventions in the communities surrounding the forest reserve. One example is the German development agency *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), which has partnered with GW for several years on financial literacy training and village saving and loan schemes.

**Step 4**
The company looked for additional funding for more strategic CSR activities. NGOs and private companies are not the only ones interested in boosting rural development. Donors are constantly looking for initiatives that can produce results and at the same time are reliable in terms of reporting and tracking progress. The basic idea behind strategic CSR is that all interventions are linked to day-to-day operations and should therefore not need external funding. However, if additional money is available CSR activities can be scaled up.

As a result of these four steps, GW now focuses its talks on individuals and groups who have the biggest negative impact on tree farming. It has also implemented a rural development programme to support practices that allow people to make a sustainable living while having fewer conflicts with the company and with each other. This company-driven rural development not only gives funding and training, but also provides a platform to external NGOs to deliver their services. NGOs are being selected and a schedule is being put in place to monitor the performance of the partner organizations.

**Conclusion**

The key achievement to date has been the establishment of a plantation in an adverse environment of legal insecurity. Moreover, trees are growing and the majority of people living nearby do not oppose and in fact support the project.

Yet, it is clear that the project is operating in a challenging legal context. Rules — especially those codified in laws and contracts — are not always respected, even by the contract partners or authorities who are supposed to safeguard them. As a consequence, for every conflict there is still a need to find a set of guidelines and a forum that is accepted by the stakeholders and that has power to implement the ruling or compromise found.

To a certain extent, strategic CSR can compensate for a lack of legal certainty. Usually, the law would provide a framework in which to operate safely. If that framework is absent, strategic CSR can clarify the reasons for conflicts, identify the parties involved, investigate standards and ethics that can provide guidance and propose interventions that reduce conflict and provide benefits. Nevertheless, it is important that the project
management not take over responsibilities that are assigned to public authorities and consequently create a framework that interferes with legal state power.

In the case of the Kikonda Forest Reserve, the strategic CSR approach constantly needs to identify the main hurdles to successful implementation of the investment. It is vital to communicate the overall message, including potential benefits, using a clear message that targets the authorities and involves service providers for rural development. This will be crucial in achieving a sustainable future.

Endnote