

Social and environmental responsibility pays!



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Summary

Indupalma is an oil palm company located in the Magdalena Medio region of Colombia, with a presence in three departments. For some years it has been developing a successful social model which includes associated labor cooperatives and which has allowed social and economic progress in the region.

Of course, we have carried all this out with the help of a team, whom I have to thank. The team has been with us for nearly fourteen years through this process, which has not been an easy or short task, but rather a long-term effort. The first thing that I have to say is “thank you” to this group of men and women who have accompanied us long this path, and also to the authorities – the governments of Presidents Pastrana and Uribe, who have done much for the Colombian countryside and have created legislation that, one way or another, has encouraged and supported a much more consistent development for rural Colombians.

There is still much to do: the cycle must be completed and a model of development for the countryside and its workers must definitively be established. However, we have to recognize that in the last two governments great progress has been made. We also have to thank the national and international institutions that have supported these processes. Among the international institutions has been

USAID, through Midas and through Plan Colombia: in fact, one of the projects about which we are going to talk was supported by Plan Colombia. Among the national institutions one stands out: Finagro, which has taken advantage of the increased flexibility and opportunities provided by the law in order to carry out all those experiences which have in one way or another been presented here.

We should also recognize the work of the ministers of agriculture, Carlos Murgas and his successors, who began this process in a systematic, intelligent and

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detailed way. One thing that we have recently noticed in the Ministry of Agriculture, and which genuinely reassures and satisfies us, is that—at least in the last two governments—there hasn't been an average of one or even two different ministers each year. This stability does not just

lend some kind of stability to the measures that have been taken to benefit the countryside. It also takes us towards a situation where we can count upon a true national, agrarian policy, which guarantees development not just in rural areas, but throughout the whole country, because with rural development comes peace and also urban development.

We are going to describe briefly our geographical location, who we are and what we are doing. We will also talk of our business and social reengineering, and of two important corporate social responsibility programs related to the environment and to an inclusive model of wealth generation. We will talk of the Indupalma of today and of tomorrow, and of the challenges we are facing.

Indupalma is located in the Magdalena Medio, incorporating parts of the departments of Cesar, Norte de Santander and Santander. Our evolution with small

producers has taken place fundamentally in the department of Santander.

Indupalma

Indupalma was an agro-industrial company, like all those in the oil palm sector: a company dedicated fundamentally to the production of crude palm oil, palm kernel oil, and palm kernel cake. Today it heads two large businesses: the agro-industrial one, which we have continued, but also a services business, which we set up and which is focused on the issue of investment banking, the operation of businesses and the commercialization of the production of these businesses. This is the fundamental characteristic that sets us apart.

In the country, there are extraordinary investment companies, project designers who carry out large designs of financing processes and so on, but which dedicate themselves to this alone. There are also operators and very good commercializers, but they limit themselves to these functions. We offer the complete package: we design projects, we structure them, we obtain financing, we operate them, we give them technical assistance, and we guarantee the sale of the produce.

Agro-industrial Indupalma is a company specializing in oil palm cultivation and the extraction of oils and their derivatives. We have also been working for many years in research and development: we produce hybrid seeds and plantlings, and we have worked intensely in the strengthening, design and development of our own renewal, after almost disappearing as a company a little more than fifteen years ago.

In the area of services, in addition to those services already mentioned, we are working strongly at the moment on selling citizens their participation in oil palm cultivation, not necessarily as producers but as investors. Our large project is "Palm equals pension": we have designed it, we have structured it and we are about to launch it to the market on a large scale. In reality, many of the projects which we are developing and operating comply with the "Palm equals pension" criterion, selling the activity as an investment activity which competes even with those which enjoy impressive performances on the stock exchanges.



As I mentioned earlier, in this process of business and social reengineering, we have designed our strategic direction around the construction of some future scenarios related to our two areas of activity.

Social Investment

We have invested very significant resources in education not just for our employees at all levels, but also for our strategic partners and, the most important of all of them, the associated labor cooperatives.

We have also worked in an important way on the construction of some clear policies and a permanent dialogue for understanding between the company and the trade union. We have signed a ten-year collective convention with our union. To sign such a convention is not easy for a company or for a union. We have been able to do it because we have been able to build trust between the two parties, despite the differences there may be between us. We know that these differences can be discussed, that they can be explained in the spaces that we made permanently available for dialogue and that definitively nourish this collective convention. The ten-year commitment does not mean that the convention is static, but rather that we manage it dynamically, so that the trust-building process will allow us and them to reach long-term agreements. Such agreements facilitate long-term investments, growth and capital strengthening within the sector.

We have a communications strategy, which is a product of research into people's views, desires, needs, worries and even mistakes. We were able to create important spaces with the workers and we have a list of commandments – not 10, but 12 initially. There are now 13 and the thirteenth was precisely very focused towards environmental protection. These commandments have been built together with the business community and our workers and they form part of our experiences, the same that they themselves have within the organization.

We have worked on processes of continuous improvement, not just in terms of processes but also of productivity, of costs and, something which is fundamental, of information, communication and management tools. We would not be able to manage and administer projects like those that we do without having such evolving tools which allow us to take the best possible decisions.

Taking Care of the Environment

With respect to the environment, since 2000 we have been certified in ISO 9000, with recertifications in 2005 and 2008. We were certified in ISO 14000 in June 2004 and recertified last June, when we also received the OHSAS 18000 certification for industrial occupational health and safety.

We view upcoming challenges with enthusiasm. This refers not just to the search for RSPO certification, but also to another certification that has been proposed to us, that we have accepted and in respect to which we have signed an agreement. This latter certification is related to certifying the oil palm crops of the farmers organized in associated labor cooperatives located upon 3,500 hectares in Sabana de Torres. We signed an agreement with USAID, Fundación Natura, Acción Social and Rainforest Alliance, directed towards training the farmers who own these crops, and obtaining Rainforest Alliance certification for them.

We are implementing programs of self-sustainability and organic practices for our crops, such as organic fertilization, and the use of biological pest control. In all our installations, we have implemented programs of efficient energy use and energy-saving. Our processing plant has an eco-generating turbine, which provides electricity for 100% of its operations, something which drastically reduces emissions. We also have industrial waste-water treatment facilities, which use the biological degradation of organic material, allowing us to improve by 90% the quality of our tributaries.

In November 2007, we performed an inventory of fauna and flora associated with oil palm cultivation on our plantation. Why did we do it? Firstly, because the company is interested in the care and conservation of the environment associated with oil palm. For this reason, we have set ourselves the goal of understanding the surrounding natural resources and developing mechanisms to protect them. Secondly, we have to comply with Corpocesar (Autonomous Regional Corporation of Cesar) Resolution No. 261 of 2003, "Removal of the plantation flora and fauna". Finally, we did it because the company wants to make a positive contribution to the global debate about the impact of oil palm cultivation on the surrounding ecosystems.

We have wanted oil palm to improve rather than to damage, and we want to show that on many occasions, and at least in this country, this has been the case. I have done research in the national and international arenas on the issue of food security. I have found very similar statistics: 30% of the world's cultivable land is cultivated; the other 70% is not. If one thinks that there is still 70% of the land left to cultivate, can we really say that we are putting food security at risk with crops such as oil palm, especially when they are giving many farmers in Colombia and across the world a permanent, important economic opportunity?

Associated Labor

As a result, it is sometimes difficult to understand many social organizations, because one perceives an interest in weakening these small farmers' opportunity to strengthen themselves economically and even, if there are processes of unified work, to become richer and grow systematically.

In our oil palm sector, there are two big opportunities for someone to be part of a company without contributing capital.

Every day, we are finding obstacles to the adequate evolution and strengthening of these processes. By the way, around four years ago, we were involved in the great discussion about increasing commodity prices and I presented a real example, when some farmers marched through Mexico City protesting against the low price of corn

and saying that they were almost starving to death. Two years ago, some Mexican citizens also marched through the same city, this time protesting against the high price of corn and therefore the increase in the price of tortillas. I asked, which of these two protests has greater social importance: that of the farmers who are starving or that of the citizens who have to pay a little more for tortillas?

That is the dilemma, that is our challenge, and that is the great opportunity that we offer agricultural and rural development in Colombia. There is permanent controversy around this issue. Unfortunately, as often happens, the controversy becomes generalized. If oil palm cultivators in other countries are destroying forests, all oil palm cultivators in all countries are destroying forests. If in many places associated labor cooperatives are used to exploit labor, all those who in one way or another have strategic partnerships with associated labor cooperatives are doing so in order to exploit citizens. Such generalizations do real harm.

It is important to keep in mind the following. In our oil palm sector, there are two big opportunities for someone to be part of a company without contributing capital: industrial partnerships, in which people receive a percentage of the partnership in exchange for their expertise; and associated labor cooperatives, through which workers are given the opportunity to build capital through their labor. These cooperatives also eliminate intermediation, given that they themselves are the intermediaries. The work appropriates what in other times was called added value and which today can mean the building up of capital for the worker. In the debate about the TLC, we have put this point on the table, and it has occurred this way because we definitely want Colombian workers to be able to form capital through their labor.

We have to break certain paradigms. We should not let ourselves be affiliated to protests, as is happening with the movements in the Valle de Cauca with the sugarcane-cutters and as happened in several zones of the Magdalena Medio with palm cultivators. New such movements are already being announced. I invite those who are acting correctly to tell the country that what we are doing is helping to build capital and at no time are we contributing to the unjust exploitation of Colombians.

In this respect, we have been working on an inclusive model for generating wealth. What does inclusive mean? As the word suggests, it means a model that includes, which gathers up, which invites those who in one way or another have participated in this process to stay, strengthen and to grow within it. In the middle of the 1990s, the company began a process of reforms which allowed for its own development and that of its



region of influence to be reformed. For this reason, we promoted the associated labor cooperatives. We began first with some railway workers and other workers who were offering us temporary services during high-harvest times, in the repair of roads and in projects which took a defined period of time. We began a radical organization process within them. We decided to offer them education, because we consider that a vertebral column in the process occurs on the education front. We were convinced that, if we removed 75% of these workers out of darkness, bearing in mind that they were illiterate, then they would be able to work more efficiently. That was our challenge.

When we began to work with the associated labor cooperatives, we didn't do it to reduce costs and expenditures. That was not our goal. What we were looking for was improved productivity. We considered that, if the workers were taught business sense, and if we showed them what the path of economic improvement could mean, surely we would also see some positive economic results. And that was indeed the case. The strengthening of that new community of entrepreneurs also meant the strengthening of Indupalma, which underwent an important evolution between late 1995 and today. We started with one cooperative, the next year there were 5, then 12, and today we have roughly 23 associated labor cooperatives, which contract some activities to us and others to themselves on their own projects.

We work along three lines with these organizations. First, we had simple and plain contracts with them for the provision of services, just harvesting and maintenance. Then, when we saw that they were maturing and strengthening in entrepreneurial terms, we sold them all the equipment which we had in the field, using leasing agreements.

We made the following conditions. We told them that we considered that the equipment was worth so much, given the work that it could perform. We told them that they could pay us in about four years. So, the value of the equipment was this much, the interest payments were this much, and the total owed was this much. We told them that, in these circumstances, they should leave 20% as a deposit on the equipment, that 15% should be saved for maintenance and repair of the equipment (this figure should, in fact, have been higher), and the rest was for them. We told them that,

if they did not fulfill the contract, we would repossess the equipment and what they had paid us would be paid as if it had been rent. We didn't have to repair any equipment: the owners did it, they entered the world of capital, and they began to become of interest for the financial sector, which began to offer them credit.

Afterwards, the organizations continued to mature and together we designed a project. We went to Washington and we took it to the financial corporation of the World Bank and to the financial corporation of the Inter-American Development Bank. There they demanded, for them to be able to support the development project, that the small farmers should contribute at least 20%. However, these farmers had nothing more than their identity cards, so we came back again. One day someone from the bank appeared and offered us some land for sale. Indupalma said it was interested, but it had a project, and why didn't we work together. Then we sat down with the president of Megabanco and we invited Fiducolumbia so that we could structure and develop what had seemed impossible.

From the beginning, Indupalma made clear that it would not be the guarantor of the project. The bankers asked us, if you believe in the project, why aren't you the guarantor? Our answer was obvious, because this is not a simple project, and it is not a simple loan to develop a project. It is a life project and we needed not just for the project to be financed, but also for the people to change, to evolve, to see the business in a completely different way. Hence we need for them too to risk everything.

The bank put the land that it was offering into the project, and the guarantee for payment was the mortgage. Then we needed a loan in order to plant the land. Finagro loaned to the bank so that the bank could loan to the project, but there were no guarantees. So we went to Finagro's Agricultural Guarantee Fund, where we obtained a guarantee for 80% of the planting. We still needed a guarantee for the remaining 20% and we managed to get President Pastrana to support the president of Finagro, Cesar Pardo, so that payments could begin. As the planting continued, resources managed by Fiducolumbia were obtained and valuations of the planted, fertilized, labored land were requested. This land soon acquired a great value, to the extent that it covered the requirements for the loan.

In this way, we ensured that the cultivation was 100% guaranteed and that the loan was fully dispensed. The owners of the project (El Palmar), whose figures are shown in Table 1, are farmers who possess 2,256 hectares, of which 1,500 were planted. This project generated 150 jobs for the owners and also 3 indirect jobs for every 10 hectares. It directly benefits a community of 3,000 people and required an investment of US\$ 4,256,319 under the aforementioned conditions.

Table 1. Figures of the El Palmar project

	Colombian pesos	US dollars
Land value	3,780,000,000	1,643,643
Crop value	8,482,960,000	3,688,612
Loans and administrative expenses	756,548,850	328,697
Total	13,019,508,850	5,661,222
ICR (Rural Capitalization Incentive) subtracted	3,230,955,000	1,404,904

The exchange rate in 2001 was 2,299 pesos to the dollar.

*. This does not include financing costs.

The second project, El Horizonte, received a Rural Capitalization Incentive (ICR) worth US\$ 1,404,904, with the same conditions. However, in this case, it was not a bank that owned land and needed to sell it, but a family. For this opportunity, Banco Agrario offered the loan, Fiducaf  administered the resources and other farmers received the proceeds and the opportunity to build the project. This project was established over 1,460 hectares and 1,300 hectares were planted. For this opportunity, Plan Colombia gave the proceeds directly to 2,600 people. The investment in the first years was US\$ 2,645,000, not including the US\$ 1,069,000 that Plan Colombia donated. The figures can be seen in Table 2.

The two projects represented genuine agrarian reform carried out by the private sector and constituted a miniature agrarian revolution of wealth generation. These lands had nothing but today they have what these projects are producing. Their owners are strictly fulfilling their payments to the banks, and they are even paying back ahead of schedule, taking advantage of the good prices that they have received in previous months. And, even though they required an investment of approximately US\$12 million between the two of them, today – with one in its fourth year of production

Table 2. Figures from the El Horizonte project

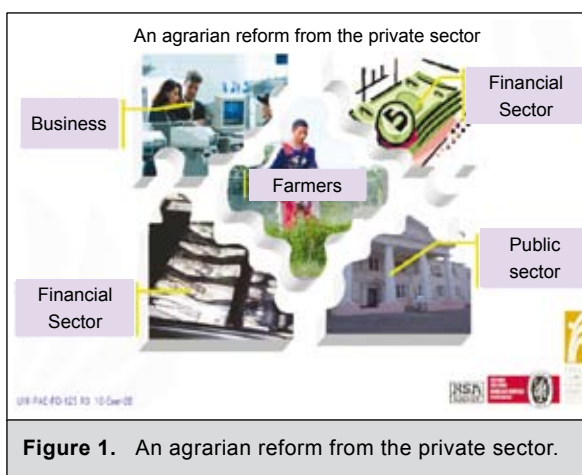
	Pesos	D�lares
Land value	1,825,000,000	784,305
Crop value	6,240,000,000	2,681,678
Loans and administrative expenses	580,000,000	249,259
Total	8,645,000,000	3,715,241
FIP-Plan Colombia Subtracted	2,488,200,000	1,069,319
Total loan	6,156,800,000	2,645,922

1. The average exchange range for the first quarter of 2002 was 2,326 pesos to the dollar.

This does not include financing costs.

and the other in its third – they are valued at a little more than US\$120 million.

The Figure 1 represents the participants in the process: business, the financial sector, farmers, the public sector, and also the national and international organizations that have supported this process in one way or another.



The results are easy to see. The farmers are owners of the assets, the produce and the cultivated lands, and of the projects that form part of the model in technical and financial terms. The farmers do not have the resources, which are managed by the fiduciary. Each month there is a board meeting in which the farmers' representatives participate and we participate as their employees. In this environment, there is a pleasing situation, because during the month we order the work, because we are the operators, but at the end



of the month they organize how the work should be done because they are members of the board, in which the banks and the fiduciary also participate. It is the board which decides how to spend future resources and to which accounts of how past resources have been spent are presented.

The trust necessary to access the financial system has been built up. The technical and logistical operation is guaranteed by a company with experience, as is Indupalma. The commercialization of the produce is guaranteed. Ultimately, I would that say we in the countryside compete with the coca-lords, because we bring the seeds and they bring theirs and we buy the fruit and they buy the coca leaves. We're stiff competition, because the coca-lords' land does not appreciate in value, but oil palm growers' land does. Beyond the countryside, we cannot compete with them but, within it and in the eyes of rural Colombians, we can and we are.

The projects are managed with an autonomous patrimony, which guarantees the transparent use of resources. Indupalma does not touch one peso. Synergy has been achieved through the association of many small producers, who in reality act like large land-owners. The channeling of international development agencies has been facilitated. Employment and property have been guaranteed for the partners. A new entrepreneurial force has been successfully developed, a force which has a view to achieving its own autonomy and which has received recognition for its projects.

The hiring set-up has been changed: from workers to land-owning entrepreneurs. Outsourcing has been introduced, by encouraging the creation and hiring of associated labor cooperatives (construction of capital through labor). Those agricultural activities that were not core to Indupalma's business have been handed over to the cooperatives. People from the region have been included in hiring and procurement processes. To sum up, a model of economic and social development has been achieved which includes and motivates rural Colombians to set up their own businesses on their land, becoming land-owning entrepreneurs.

Indupalma changed its cost structure, increased its productivity, and gained greater income possibilities from yields. It also generated new leadership, because each manager is a leader. The new force of entrepre-

neurs has participated in forums, oil palm congresses, seminars, meetings, and visits to other countries, like Costa Rica and Ecuador. Every year we take some of them to Mondragón in Spain and also to learn about the experience of the Carvajal Foundation in Cali. This has facilitated the cooperatives' access to productive assets and it has begun what can be called a process of agrarian reform from the private sector.

We are generating wealth, work, property and development in the region, offering an improvement in terms of peace and promoting the construction of social capital. In addition, we are forming a community with a permanent desire to learn and with an entrepreneurial mentality. Of course, the security conditions have improved and we have made an important contribution not just to reducing illiteracy but also to improving people's educational conditions in general.

Today Indupalma must face an enormous challenge. We have decided to think big and we are prepared to do so. Hence, we are looking for new developments in Central America, where we hope to plant 20,000 new hectares. We are evaluating markets not just in Central America, but in the United States and Europe. We are considering running agro-industrial parks with areas in the order of 90,000 hectares. Currently, the areas we own and those that we administer on behalf of third parties total scarcely 20,000. We are coming ever closer to creating a cluster which assures, if this is possible, regional development based on oil palm.

Elsewhere, we are already building a new processing plant. We have the land and we will soon begin to break the ground in the area. Our employees have already been to Malaysia to evaluate the machinery which will be imported to establish the new plant, which will be the most modern in the country. Small producers will own 30% of the plant, paying for this participation through the profits which it will generate, because the plant's produce is already sold, thereby guaranteeing resources.

In addition to these challenges that we have set ourselves, we have to maintain and spread a model of corporate social responsibility, where the objectives are wholesale sustainability, economic growth and improving productivity. We must dedicate ourselves to these tasks every day, looking above all for a reduction in costs and expenditures.

Indupalma is today responsible for more than 750 pensioners, and it will have 1,002 people who are not covered by other social security. The company is responsible for them, and that's why we have to work intensely to reduce costs and expenditures, but above all to improve productivity, the foundation on which to face global competition.

Keeping the ISO 9000, ISO 1400 and OHSAS 18001 certifications is also an important challenge for us. We have, and I say it with team pride, the privilege of being to date the first company from the agro-industrial sector, not just the oil palm sector, that has won the Colombian Prize for quality management.

Another of our challenges is to obtain the Rainforest Alliance certification for the crops of the small farmers in Sabana de Torres, who are organized in associated labor cooperatives across 3,500 hectares, as well as achieving the RSPO certification for Indupalma and all the projects that it operates.

The challenge represented by new services in the investment and project operation bank deserves a special mention. We have to consolidate the project and land bank, we have to strengthen the "Palm equals pension" program, we have to generate wealth where the company has influence, and we have to maintain a permanent atmosphere of understanding and dialogue with the workers and their union under the spirit of the collective convention which was signed for a ten-year period.

We have also set ourselves the goals of endowing small farmers with at least 20% of the property of our projects, converting these workers in entrepreneurs, of continuing with the clean production and energy-saving programs to help reduce the environmental impact that these processes generate, and of reproducing, strengthening and broadening our research and development capacity into the production of new plant materials from oil palm and other biodiesel crops.

In 2010, the new Sabana de Torres processing plant will enter into operation, serving those existing projects, and being 30% owned by the associated small and medium oil palm producers. We hope to begin the planting of rubber after 2010.

Lastly, I would like you to look at Table 3. I have been presenting this table for many years, but it never goes out of fashion, because if it becomes reality it could represent a genuine economic and agrarian revolution and a true revolution which would definitively establish peace in this country.

Some time ago, some Malaysians carried out an assessment, and they told us that here in Colombia there is the potential to plant 3.5 million hectares with oil palm. If we manage to plant 2 million hectares in fifteen years, with an investment of US\$9 million, with a twelve-year loan like those that we have today, it could convert 200,000 rural Colombians into land-owners. And if we consider these 200,000 people as head of families, each with a

Table 3. The future of the palm oil business

Look out! This is the future of the oil palm business	
Potential for the development of oil palm in Colombia	
No. of hectares with good production potential	3.5 million
Goal	2 million hectares planted in 15 year
Investment value	US\$9 billion over 15 years
Loan repayment period	12 years after bank dispenses loan
Number of rural Colombians who would become land-owners	200,000
Number of direct beneficiaries	1 million in the countryside (mother, father, three children per land-owner)
Indirect employment generated	3 people for every 10 hectares: 600,000 jobs
Number of beneficiaries	3 million people (father, mother, three children per land-owner)
Number of people living in the countryside in conditions of growth	4 million



mother, a father and three children, we would have one million direct beneficiaries, who would have possibilities to grow economically, not just to survive on the land. They would become people with the ability to save and to invest. As we know that every 10 hectares generate three indirect jobs, 600,000 new jobs would also be created in the countryside,

and doubtless many new companies too. And here we would find three million beneficiaries –a figure which, if added together with the one million direct beneficiaries, gives a total of four million Colombians. This would mean a real green revolution in this country. And I ask, is there any war that could withstand such a proposition?