Good corporate governance in biomass projects

Introduction

This factsheet is about good corporate governance in biomass projects. It provides suggestions for tools that can help implement good corporate governance practices in the planning phase, the implementation phase and the termination phase of biomass projects. Tools highlighted in this factsheet include the Social and Environmental Impact Assessment (SEIA) and sustainability certification of biomass projects. Besides, the fact sheet suggests a number of other activities which a biomass project developer may undertake to strengthen its good corporate governance practice.

This fact sheet is primarily aimed at biomass project developers and investors in such projects. It may also contain useful information for other stakeholders in biomass projects, e.g. (local) authorities, neighbouring communities, employees of companies, and non-governmental organisations.

What is corporate governance?

In literature, there is no single agreed definition of what corporate governance is. Some definitions focus on the actual behaviour of companies: their performance, efficiency, growth, financial structure, and relations with shareholders and other stakeholders. Other definitions tend to focus more on the normative framework, meaning the rules under which the firm operates (e.g. the legal system, financial markets and labor markets).

The corporate governance codes which have been developed in recent years, tend to apply a narrow definition of corporate governance, i.e. a focus on managing operational and financial risks (of publicly-listed) companies. The Dutch ‘Code Tabaksblat’ is such an example.

In general good corporate governance is about companies respecting the values of transparency, accountability, fairness and responsibility, in order to build and sustain the confidence of investors, stakeholders and society as a whole. It is about holding the balance between economic and social goals and between individual and communal goals.

This factsheet is about good corporate governance in biomass projects. Here, we use the following working definition of good corporate governance:

- a ‘blend’ of respected laws and regulations and voluntary company practices,
- which enables a company to attract financial and other resources, perform efficiently and generate long-term economic value for its shareholders,
- while respecting the interests of stakeholders and society as a whole.
Today, stakeholders take a more cautious and sometimes critical approach to biomass projects: Governments have developed standards for ‘sustainable biomass’. Investors request additional guarantees in relation to the longer-term profitability. NGOs critically follow environmental and social impacts of biomass projects, and campaign against certain types of biomass (projects).

Good corporate governance allows biomass project developers & operators to respond effectively and coherently to the variety of stakeholders’ requests. By implementing a policy on good corporate governance a company makes its objectives transparent, how it plans to achieve those objectives, and how it takes account of stakeholders’ and society’s (broader) interests. It also allows companies to effectively communicate with stakeholders.

Good corporate governance is relevant both in the planning phase, in the operational phase and in the termination phase of biomass projects. This fact sheet provides suggestions for tools and instruments that can help implement good corporate governance practices in these phases.
Good corporate governance in the planning phase of biomass projects

In the early planning phase of a biomass project, the project design is generally not yet fixed. Project variables can be changed relatively easy, to better meet the company’s own objectives and to deal with specific stakeholders’ interests and views.

It is beyond the scope of this fact sheet to assess a biomass’ planning process in-depth. Instead, this section focuses on an instrument which can play a crucial role in ensuring good corporate governance during the planning phase, i.e. a Social and Environmental Impact Assessment. Besides, we highlight the importance of the choice of type of biomass.

Social and Environmental Impact Assessment as a tool for systematic assessing a project’s impacts

A social and environmental impact assessment (SEIA, sometimes ESIA) is the systematic assessment of the wider social, environmental and economic impacts of a project. A SEIA generally considers and compares various alternatives for project design and project implementation. This may also include alternatives for land use and/or the exclusion of certain types of land.

In certain cases, execution of a SEIA might be a legal requirement (e.g. for projects exceeding a certain size or capacity). A completed SEIA might also be a pre-condition for certification of the biomass project, or a requirement set by investors or other stakeholders. What is important is that a SEIA allows to systematically assess the project’s wider impacts and potential problems at an early stage, leading to more informed decision making and improved project design. It can also set a framework for assessing the environmental and social impacts throughout the project lifetime.

Experience shows that these benefits of a SEIA outweigh the sometimes lengthy process of executing the SEIA, and the related costs.

The SEIA generally results in a report. This report is an important tool for the project developer itself, but may also be used as relevant background information for certain stakeholders. For example, a SEIA report can be used by banks in their project risk assessment, or for obtaining the necessary environmental and operating permits. In general the report can form a communication tool to show stakeholders the project’s impacts, and how the project developer intends to mitigate project risks, and enhance project benefits.

Depending on the specific SEIA objectives, the scope and contents may vary. Guidelines for executing a SEIA for a biomass project are available from the NL Agency biomass toolbox [3]. Other useful information can be found in [2].

Key to SEIA is the consultation of relevant stakeholders. Stakeholder consultation at this stage does not only allow to include certain stakeholders’ views and priorities in the project design, it can also be the starting point of a continued dialogue with stakeholders in the longer-term. Continuous engagement with relevant stakeholders is generally perceived as a key condition for good corporate governance. NL Agency has developed a guidance note on stakeholder consultation [4].

EIA as a precondition for financing biogas facilities in South-Africa

Various biomass project developers in the DBM project portfolio have executed a SEIA or EIA. One example is the Bio2Watt project in South-Africa, which aims to implement anaerobic digestion facilities for converting organic residues to biogas and fertilisers.

Rethabile Melamu from Bio2Watt: ‘We conducted a EIA, which was a precondition for obtaining the required environmental permits for our biogas plants, and also for securing funding from donors such as NL Agency. The EIA was a time consuming and costly exercise. It was worth the effort: not only did it ultimately lead to the permits and the funding, it also gave us a broader perspective on our project impacts and how we could optimise its design and operational impacts. I would definitely recommend a EIA to other project developers’.

Choice of biomass type as a critical factor for a sustained successful project

Biomass projects vary widely in the type of biomass they cultivate and/or process. Biomass may include dedicated crops or parts thereof, or residual streams or waste materials. Biomass may include solid, liquid and gaseous material. Biofuel feedstocks may include biomass also suitable for food, fodder and other applications.

The type of biomass impacts on the relevance of (certain aspects of) good corporate governance. This is not only because real benefits and risks vary across different types of biomass, but also because stakeholders have certain perceptions of different types of biomass.

For example, there is a general recognition that cultivating crops leads to more sustainability risks than usage of residual streams or waste materials. Another example is the competition between biomass for fuel, and biomass for food: certain types of (cultivated) biomass have an inherent risk of competition, while other biomass streams do not.
Certain types of biomass (crops) can only be grown in a limited number of regions or countries (with certain climatic conditions or other natural or infrastructural capacities), which may entail specific corporate governance issues related to those countries.

Good corporate governance first of all requires that a project developer makes a well-informed selection of the type of biomass for his project, taking account of real benefits and risks and of stakeholder perceptions. Subsequently, a policy shall be developed to mitigate risks associated with the use of the biomass (e.g. certification), and enhance benefits where possible. Thirdly, it is essential that a project developer communicates in a transparent way about his choice of biomass and his rationale. This can take away potential negative stakeholders’ perception and increase project support.

Good corporate governance in the operational phase of biomass projects

For operational biomass projects, good corporate governance includes first of all compliance with relevant laws, regulations and conventions. It also includes the application of best operational practices, e.g. agronomic practices or industry standards for biomass processing.

In addition, good corporate governance may include other ‘voluntary actions’ by a company to further reduce risks, and/or enhance benefits of the project. While ‘voluntary actions’ may include a variety of programs and activities, the focus here is on sustainability certification of biomass.

Biomass certification as tool to prove the sustainability performance of a project

Biomass sustainability certification is by many seen as an essential tool to prove the sustainability performance of a biomass project or biomass to biofuel chain. While certification is in essence a voluntary market instrument (with independent verification), it is increasingly being used by biofuel and bio-energy policy makers as a policy tool. For example, compliance with EU sustainability criteria for biofuels can primarily be proven by certification against one of the EU approved biomass certification schemes.

Today, many different biomass certification schemes exist. Some schemes are specifically aimed at biomass for biofuels, other schemes focus on one particular type of biomass (rather than the type of application of that biomass). Schemes also differ in the way they are being governed (e.g. multi-stakeholder governance), the scope of the sustainability aspects covered, and the level of audit quality. Which biomass certification scheme is most appropriate in a specific situation depends on a variety of factors, including but not limited to: type of biomass, envisaged (geographic) market, affordable costs, views of relevant stakeholders (e.g. on scheme credibility). Several benchmark studies of biomass certification schemes have been executed, the results of which may assist the scheme selection process for a particular project [5, 6].

Elements covered by comprehensive certification schemes for biomass sustainability

Comprehensive certification schemes for sustainable biomass cover the majority or all of the below main elements in their sustainability criteria:

1. Compliance with relevant (inter)national laws and regulations
2. Protection of biodiversity, including High Conservation Values.
3. Protection of soil, water and air quality
4. Application of best agronomic practices
6. Impact on the local economy
7. Protection of existing land rights
8. Contribution to well-being of the local population and of employees
9. Long-term financial viability

Stakeholder consultation, including application of Free Prior and Informed Consent (FPIC) is an common process requirement in biomass certification schemes.
Activities beyond biomass certification – assessment of indirect effects
Biomass certification is primarily aimed at reducing sustainability risks of a biomass project at a particular geographic location (e.g. the cultivation area or the processing plant).

By definition, this means that biomass certification does not consider potential indirect effects of the project, e.g. displacement of food crops by biofuel crops and cumulative effects of biomass projects. There is a general understanding that the issue of (undesired) indirect effects of biomass production needs to be considered at the level of spatial (land) planning. While this is primarily a government responsibility, land planning processes may also provide opportunities for participation of stakeholders, including biomass project developers. This will depend on the national (and potentially regional) institutional framework for land planning.

The probably most widely discussed category of undesired indirect effects is the competition between food and fuel: feedstock and/or land suitable for food production is used for fuel production, thereby reducing food security, and/or increasing the need for additional land conversion. Although food security is an issue which needs to be dealt with at a macro (government) level, companies may also assess if their biomass project impact on food security, and take measures to avoid undesired effects. Both the FAO [1] and NL Agency [7] have published tools and guidelines for such assessments by individual companies.

Doing no harm – doing more good: creating additional benefits
Biomass certification is focused on mitigating risks and adverse effects, and less on creating additional benefits for local stakeholders affected by the project. Companies can develop policies and undertake activities ‘beyond certification’, which have the potential to truly create additional value for local stakeholders, contribute to capacity building and sustained local development. Some of these activities include a fundamental different business model, other activities are more pragmatic, action-oriented.

A sample of possible activities:
• Developing an inclusiveness model for small farmers;
• Establishing a capacity building program amongst small farmers, e.g. in relation to agronomic practices;
• Implementing an active gender policy to strengthen the position of female workers.
• Allocating a certain percentage of company turnover/profit to local community investments (e.g. schools, infrastructure).

The NL Agency database [3] contains a variety of literature on ‘benefit sharing’, which may help a project developer to select certain activities which best suit his situation.

Certified production and processing of cassava
The DBM-funded project of Agro2 is working on production and processing of cassava in the Veraguas region of Panama. In September of 2011, the company installed a small-scale ethanol plant, pioneering small-scale cassava-based ethanol production. Agro2 is currently in its commercial roll-out phase with the construction of a large-scale ethanol plant, producing 7,500 liters of ethanol and 5 tons of cassava flour per day.

Agro2 considered sustainability certification of cassava production and processing as a precondition for successful upscaling and commercialization of its activities. In 2011, Agro2 assessed various sustainability certification schemes and came to the conclusion that ISCC would be most appropriate. ISCC certification was achieved in 2012.

Agro2 founder and director Frans Van Hulle comments: ‘We are excited to be a member of the ISCC system, promoting sustainable energy in Panama and abroad. Agro2 is committed to sustainable agricultural practices and wants to act as a model project for agricultural and energy production in the region. With the help of the ISCC seal, our commitment to sustainability has now been confirmed’.
Good corporate governance means that contracts are terminated in a legal and just way, and that stakeholders negatively affected by project termination are fairly compensated. It may also include liaison with stakeholders on potential follow up activities, and seeking third parties interested in these activities.

There is no single recipe of good corporate governance practices in a project termination phase. Much will depend on the background of project termination, and the remaining available resources of a project developer. What is important that a project developer does not ‘run away’, but makes a maximum effort to deal with both formal and informal liabilities of the project.

Training redundant sugar cane cutters in Sao Paulo state

Production of sugarcane is highly rationalised and increasingly mechanised. Mechanisation allows for the elimination of pre-harvest burning. This means improved labour conditions for plantation workers, but also a strong outflow of low-skilled manual cane cutters.

Sao Paulo State will phase out pre-harvest burning in 2014. This will lead to massive loss of employment for cane cutters, who are mostly immigrants from poorer parts of Brazil with no alternative employment opportunities.

In the DBM-project ‘Real Benefit Sharing’, social NGO Solidaridad cooperates with the Brazilian Sugarcane Industry Association Unica to facilitate alternative employment opportunities for redundant cane cutters. More specifically, train-the-trainer programmes have been developed. In these programmes, representatives from the involved plantations (mills) were trained to provide cane cutters with the skills required to do alternative work on or outside the farm or the mill.

Sven Sielhorst from Solidaridad comments: ‘Besides the direct impact on peoples’ lives, the project also contribute to a mind shift in the sugarcane sector. I remember that only a few years ago, the notion that an employer has responsibilities beyond the contracting period of a worker, was alien to the industry. A project like this breaks through this paradigm. It fundamentally changes the relationship between employer and employee. I believe this will eventually trickle down to the rest of the industry as well.’

Good corporate governance when terminating biomass projects

At some point, a project developer or project operator may decide to terminate a biomass project, e.g. because of lack of longer-term perspective or a change of strategic company objectives. Termination may also be forced by external factors, e.g. a bankruptcy or unworkable conditions in a conflict area.

Also in the termination phase of a biomass project, good corporate governance is relevant. In this phase, it primarily relates to managing the formal and informal liabilities which a project developer has towards the project’s stakeholders. Formal liabilities include e.g. contracts and agreements (e.g. land lease, employees’ contracts, suppliers and clients). Informal liabilities include perspectives and expectations raised amongst stakeholders at an earlier stage, and which are not fulfilled as a consequence of project termination.

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The Netherlands Programmes for Sustainable Biomass (NPSB) bundle and disseminate the knowledge from the biomass project portfolio of NL Agency and complete the knowledge gaps with supplementary research. The project portfolio for NPSB consists of the Global Sustainable Biomass Fund and Sustainable Biomass Import Fund and the relevant projects of the Daey Ouwens Fund.

References


