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# ***LESSONS LEARNED ON RSPO SMALLHOLDER CERTIFICATION IN INDONESIA***



**Brinkmann Consultancy**

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**Final version**

**CREM report no. C84  
October 2013**

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# 1 INTRODUCTION

## 1.1 Background to the project

More than 30% of global palm oil is produced by small farmers, generally referred to as smallholders. In Indonesia alone, more than 1 million family incomes are generated through oil palm smallholder farming. The position of smallholders is an issue in the sustainability debate on the palm oil industry. Social NGOs have highlighted the often highly dependent situation of palm oil smallholders, including unequal contract conditions, cases of debt bondage, et cetera. At the same time, industry stakeholders increasingly recognize that smallholder production could play a key role in moving towards a more sustainable palm oil industry: in particular the potential for yield increases has been identified as a means to slow the unsustainable expansion of the acreage under oil palm cultivation.

The Roundtable for Sustainable Palm Oil (RSPO) has acknowledged the specific position of smallholders in the palm oil industry, including the need to include smallholders in RSPO certification. Certification of smallholders has proven to be a difficult process, as a consequence of which only a small number of smallholder groups have so far been certified (in contrast to the large acreage of certified commercial plantations).

In response to the challenges related to certifying smallholders against the RSPO standard, the Dutch Ministry of Foreign Affairs in 2008 funded a project 'Certification of palm oil smallholders in Indonesia'. This project was executed by CREM BV, Global Sustainability Associates (GSA) and Brinkmann Consultancy, and aimed at executing three pilots with smallholder groups to gain insights and practical experiences with RSPO-certification of oil palm smallholders in Indonesia. The project was completed in June 2013.

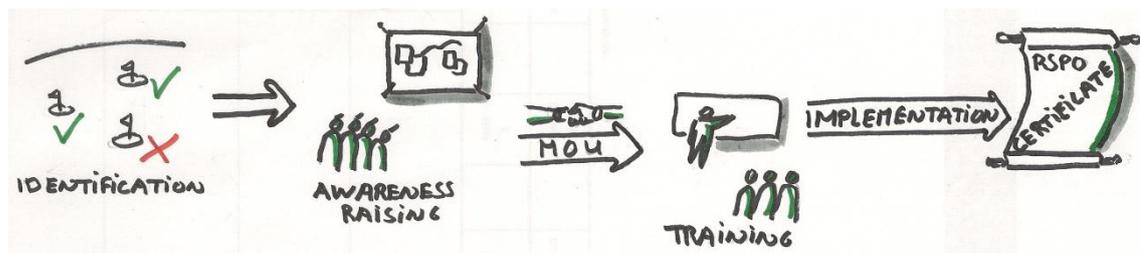
This paper shares conclusions and lessons learned from the pilots, and provides recommendations for a variety of stakeholders. The primary audiences of the paper are palm oil producers and the palm oil supply chains at large, and more in particular the RSPO community. However, insights in this paper might be of interest to anybody working with smallholder groups outside the palm oil sector.

## 1.2 Methodology

Initially the project team aimed at successfully executing three pilots with two schemes and one independent smallholder group. The approach to each pilot had three major phases:

1. The identification of smallholder groups;
2. Awareness raising amongst smallholder groups and relevant stakeholders; and
3. The implementation of RSPO Principles & Criteria (P&C) and capacity building.

The phases were carried out sequentially as shown in the figure below. The identification and awareness raising overlapped. When first interests were shown, awareness raising was started. Phase 3, training and implementation, could only start when an MoU was signed between involved parties.



During the identification phase suitable pilots for the project were identified. An initial basic assessments indicated whether the group would have the potential to enter the programme. The main criteria for admission to the programme were:

- Primary identification of issues based on the RSPO standard (generic smallholder guidance) and whether these could be solved within 1-2 years from the start of the pilot;
- The smallholder group should be organized according to a basic organizational structure;
- Travel distance to the project. Due to the limited time available per pilot, the project team could not serve pilots in remote areas. For each site only one travelling day was acceptable;
- After a first approval, a baseline assessment of the group was executed by GSA. The baseline assessment was the final approval for participation.

Initially, phase one was supposed to be finalized within 12 months from starting date. However, this phase lasted three years, mainly due to issues facing organizational structures of schemed groups and negotiations concerning a possible system and linkage to the market of the independent smallholder group. During this period the project team visited or contacted several sites and contacted several schemed and independent smallholder groups. All in all, three baseline assessments involving two schemed smallholder sites and one independent smallholder group were carried out.

After an intensive awareness raising trajectory smallholder groups and mill committed to the programme by signing an Memorandum of Understanding (MoU). The project team spoke with the affiliated mill several times and had training sessions with the involved smallholder group(s). The training sessions were usually run by local experts with support of GSA. Before phase three could start, the project team aimed at full understanding of the entire system and process by the mill and smallholders. The output of phase two was a Memorandum of Understanding with the smallholder groups and mill, including a Plan of Approach.

The third phase was entered when all commitments were confirmed. The smallholders followed an intensive training programme which was prepared by GSA, Aksenta and the mill. An internal structure was set up and Standard Operating Procedures (SOPs) were written and implemented. Phase three resulted in the pre-audit and final audit.

The project is expected to result in the certification of one schemed smallholder group in June 2013. For a successful audit, some outstanding matters concerning legal constraints on land titles and organizational issues at cooperative levels still need to be solved. One pilot never reached phase two. And for another pilot, a contract for the pilot was never agreed upon.

Both smallholder groups were located on Southern Sumatra. The schemed smallholder groups has 250 members who each own 1 to 2 ha of land. They were already organized in a cooperative. The independent smallholder group had 400 members. An organizational structure in this smallholder group was still absent.

### 1.3 Summary of lessons learned and recommendations

See the table below for an overall overview of the lessons learned and recommendations that the project team gained by the project.

	Lesson learned	Recommendation
<b>RSPO P&amp;C</b>	<u>Implementation of the RSPO P&amp;C can only be successful within a period of three years (which is the set period for mills with schemed smallholders) when there are limited land title issues</u>	
	<u>The initial three year time frame of the project is challenging, especially when there is not a clear picture of the benefits for smallholders</u>	<u>Recommendation 1 – Provide sufficient information materials about what a certification comprehends and how smallholders will benefit</u>
	<u>Limited sense of urgency or too many hurdles foreseen by mills to include schemed smallholders in their certification process, even though mills are supposed to certify their schemed smallholders in their time frame of three years after obtaining their own RSPO-certification</u>	<u>Recommendation 2 – RSPO and buyers are recommended to invest and communicate about show case practices</u> <u>Recommendation 3 – Smallholder oil could be interesting from a traceability point of view</u> <u>Recommendation 4 – Include smallholders in regulations concerning biomass used for bio fuel and address inclusion of smallholder certification in the bio fuel standards</u>
	<u>A phased approach for the RSPO P&amp;C would have avoided a 2½ year long discussion with the independent smallholder group</u>	<u>Recommendation 5 – Step based approach</u> <u>Recommendation 6 – Peer to peer learning</u>
<b>Implementation process</b>	<u>Schemed and independent smallholders are reluctant to participate, because they cannot oversee the work they have to take up, their benefits and the consequences</u>	<u>Recommendation 7 – Create an online learning environment where smallholders can meet, share and where RSPO shares good practices</u>
	<u>A mapping of all costs made by the mill, including the scheme manager, and by the schemed smallholders, like materials for better agricultural practices, should form a basis of a fair and sustainable division of premiums (if any).</u>	<u>Recommendation 10 – Cooperate with smallholders in a fair and transparent way</u>
	<u>Certification of independent smallholder groups requires a pre-determined financial system to maintain the system after the initial certification</u>	<u>Recommendation 9 – Pre-determined financial system for independent smallholders</u>
	<u>Basic training in four areas is required: (1) technical, (2) business, (3) financial &amp; administrative and (4) organizational training, as well as continuous training after the certification process by the affiliated mill</u>	<u>Recommendation 8 – Provide sufficient and consistent training materials</u>
<b>Market Access</b>	<u>The business case for smallholder certification is difficult to proof with a lack of good practices and examples</u>	<u>Recommendation 14 – Relate and cooperate with the mill</u> <u>Recommendation 15 – Smallholders search for an organizational structure that suits their contexts</u>
	<u>Linkage to an existing supply chain is a pre-requisite for independent smallholders to start the RSPO certification process, but might influence their independent status.</u>	<u>Recommendation 11 – Set examples concerning financial structures</u> <u>Recommendation 12 – Establish a fund that make the</u>

		<p><u>process financially possible for smallholders and provides for a sustainable financial structure that allows future repetitive certification costs to be carried by the fund, smallholders and/or mill</u></p> <p><u>Recommendation 13 – Provide incentives to producers and supply chain operators who include smallholders in their value chain</u></p>
	<p><u>The willingness of buyers to pay a premium for smallholder fresh fruit bunches is limited</u></p>	<p><u>Recommendation 16 – Investigate opportunities of paying an incentive to smallholders or set up another financial structure that smallholders also benefit financially</u></p> <p><u>Recommendation 17 – Buyers wanting to integrate their supply chain may choose for independent smallholders and the GreenPalm Book&amp;Claim system</u></p> <p><u>Recommendation 18 – Raise supply chain actors' awareness on (the certification of) smallholders</u></p>
	<p><u>Indirect benefits will have to outweigh the costs of certification</u></p>	<p><u>Recommendation 19 – Indirect benefits need to have a prominent place in moving smallholders to RSPO compliance</u></p>

## 1.4 Reader guide

In each phase, as indicated in paragraph 1.2, the project team gained lessons learned in three different areas, being:

1. RSPO Principles & Criteria
2. Implementation process
3. Market access

The structure of this document is built around these three areas. For each area the main lessons learned will be presented and linked to the three phases the pilots should have gone through. Although only one pilot completed phase 3, lessons learned from all three pilots will be included in the following chapters. Where possible, recommendations are drawn from the lessons learned.

Each chapter contains two main parts. First the lessons learned per area, thereafter recommendations concerning the different lessons learned will be distilled from the experiences from the project. The recommendations will, in particular, focus on four relevant stakeholder groups:



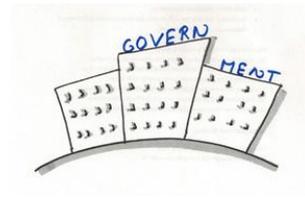
Smallholders



RSPO



**Industry**



**Government**

Where lessons learned or recommendations concern only schemed or independent smallholders, this will be specified in the text. When not specified the text is applicable to schemed as well as independent smallholders.

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## 2 **RSPO PRINCIPLES AND CRITERIA**

### 2.1 Introduction

The RSPO Principles & Criteria (RSPO P&C) were agreed in the RSPO Generally Assembly in 2007, following a two year trial period since 2005. It was soon recognized that the 'generic' P&C needed to address the specific position of smallholders, both schemed and independent. Since 2007, RSPO has developed various standards and guidelines to facilitate smallholder certification against RSPO requirements, i.e.:

- RSPO Principles& Criteria – guidance for schemed smallholders (2009);
- RSPO Standard for Group Certification (2010);
- RSPO Guidance for Independent Smallholders under Group Certification (2011);
- RSPO Accreditation and Certification Requirements for Group Certification (2011).

In addition, various 'national interpretation' standards were developed taking account for the position of smallholders under different national conditions.

This project ran from 2008 to mid 2013, in parallel with the development of the above standards for smallholders in RSPO. This allowed the project team to contribute to the RSPO process, by highlighting experiences from operational practice on the ground and, vice versa, to harness lessons from the RSPO process and (draft) standards.

Lessons learned concerning RSPO P&C

- Implementation of the RSPO P&C can only be successful within a period of three years (which is the set period for mills with schemed smallholders) when there are limited land title issues;
- The initial three year time frame is challenging, especially when there is not a clear picture of the benefits for smallholders;
- Limited sense of urgency or too many hurdles foreseen by mills to include smallholders in their certification process, even though mills are supposed to certify their schemed smallholders within a time frame of three years after obtaining their own RSPO-certification;
- A phased approach for the RSPO P&C would have avoided a 2½ year long discussion with independent smallholder group.

Each will be discussed in more detail in the next paragraph.

### 2.2 Lessons learned

***Implementation of the RSPO P&C can only be successful within a period of three years (which is the set period for mills with schemed smallholders) when there are limited land title issues***

In Indonesia, there are different land schemes developed over the years for mills concerning their collaboration with smallholders' areas attached to them (depending on the year of development). Some

are either subject to a transmigration scheme, to a KKPA scheme (Koperasi Kredit Primer Anggota or Prime Co-operative Credit for Members) or other schemes.

“The [Indonesian] state facilitated access to forest and village lands, infrastructure development, and credit at concessionary rates for plantation developments. Policies generally required ‘a 20-80% mix between estate area and smallholder area’. The state provided ‘financing for smallholder plantings, initial living expenses and housing’ while requiring that ‘the nucleus estate was responsible for extension services, for collecting and for processing the fruit bunches’. These nucleus estate schemes involved permanently alienating local land for the development of a plantation ‘core’ under a state granted ‘land use permit’ over what was considered ‘state land’, together with the provision of smallholder plots known as ‘plasma’. The latter typically consisted of two hectare of oil palm for a smallholder family and a small parcel of land for food crops located at each housing site. The smallholder would obtain fully privatized rights over their smallholding upon settlement of the oil palm development loan”.<sup>1</sup>

Land title issues often arise where farmers were to negotiate land ownership within the KKPA scheme. The KKPA scheme involved a more direct private-community ‘partnership’ model with the plantation firm. Usually the plantation firm would take responsibility for the project, without direct state involvement. This may have caused land title issues over time. Due to time pressure and limited budget the project team had to exclude smallholder groups that faced too major land title issues. According to the RSPO P&C, plantation firms are supposed to include their schemed smallholders within a period of three years after their initial certification. This seems unrealistic when land title issues have to be solved as part of the smallholder certification process. This currently also hampers the process of certification of schemes.

***The initial three year time frame of the project is challenging, especially when there is not a clear picture of the benefits for smallholders***

Even though the project team could only work with schemed smallholder groups with limited land title issues, the initial three year time frame of the project proved to be challenging. The initial identification phase lasted much longer than foreseen. On top of the land title issues, also accessibility, cooperation of the mill, initial organizational structure of cooperative and willingness of smallholders to participate without direct financial incentive slowed down the identification process.

Although the project’s starting point fell into arrears of mills who want to go for inclusive RSPO-certification, also for these mills a time frame of three years remains challenging. These mills encounter similar problems, like organizational structure of smallholder groups.

***Limited sense of urgency or too many hurdles foreseen by mills to include schemed smallholders in their certification process, even though mills are supposed to certify their schemed smallholders within a time frame of three years after obtaining their own RSPO-certification***

Where mills dealt with their own certification process, external factors did not contribute either to an increased sense of urgency. Currently the project team sees a change in this matter. Over the past 1½ years an increasing number of buyers put pressure on mills concerning supply chain integration, hereafter called inclusive RSPO-certification. Several factors seem to have contributed to the limited focus on smallholder certification of mills at first:

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1 McCarthy, John (2010). Processes of inclusion and adverse incorporation: oil palm and agrarian change in Sumatra, Indonesia. *Journal of Peasant Studies*, 37(4), October 2010.

- Due to market developments, mills prioritized their own certification. When they have their own certification in order, it seems that the focus shifts to smallholder group certification. The project team learned that a sequential approach (mills first, followed by smallholders within a period of three years after initial certification) has advantages. The smallholders can join in with already set up structures and benefit from the mill's experience with RSPO certification. The disadvantage, however, is that the three year period conform the RSPO P&C is not always realistic. Several factors determine whether a mill is able to reach smallholder certification within three years:
  - Willingness of smallholders to participate;
  - Severity of land title issues;
  - Status quo of organizational structure of the involved smallholder groups at the start of the certification process.

The step based approach for independent smallholders, as proposed in recommendation five (page 13) is also considered to be beneficial to schemed smallholders.

- Concerning the 'willingness of smallholders to participate' mills are facing a new challenge: 'How to get the smallholders on board?' The current system does not allow for an extra incentive for smallholder growers. Mills have to motivate smallholders in other ways. The approach that worked for this project was to train smallholder growers and improve their agricultural practices. This should lead to increased yields and better quality.
- Large buyers do not necessarily prioritize fully traceable supply chains that include smallholder crops. An increasing number of European buyers now start to require fully traceable RSPO certified oil that will result in RSPO certification for the whole unit of certification (own estate, mill and smallholder supply), however Europe is not the main market for many mills.
- In addition, the larger the percentage of smallholder Fresh Fruit Bunches (FFB) supply for the mill, the more likely the mill will include its smallholders in their certification.

***A phased approach for the RSPO P&C would have avoided a 2½ year long discussion with independent smallholder group***

Independent smallholders are very diversely organized and plan their farming based on different day to day needs. This impacts their farming approach and also the way they address environmental and social issues. By looking at a step based approach for independent group certification step-by-step improvements in agricultural practices can be implemented and it aims at increased motivation with farmers to continue when they see improved living conditions, yields and incomes. This long term focus takes time to show results (fertilizer regimes, harvesting regime etc). For improved practices to take effect the smallholder will need time to evaluate. This will help farmers to see the reasoning behind RSPO certification in the first place. By having all eight principles as part of the certification system set as a requirement the farmers lose their interest and motivation and, at times, struggle to always see the reasoning behind certain requirements. This can be overcome by looking at a phase certification approach which is based on different timelines of the implementation of all the elements.

## 2.3 Recommendations



### **Recommendation 1 – RSPO**

**Provide sufficient information materials about what a certification comprehends and how smallholders will benefit**

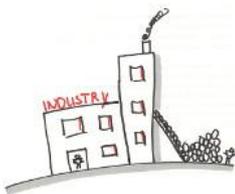
It is proven to be challenging to get the smallholders on board of certification programmes in Indonesia, in particular for the independent smallholder groups. Consistent and clear information provided by the RSPO could have been helpful. Therefore the project team suggests to prepare a *smallholder business case kit*, that is available to smallholders, mills and other parties. This kit could include the following information:

- A clear business case for smallholders, based on a solid ground of good and example practices, including bottlenecks and how these were overcome.
- Overview of what smallholders and mills can expect when working together on the certification process:
  - what are the steps to be taken;
  - what are the roles and responsibilities of mill and smallholders;
  - what costs may smallholders and mills have to make;
  - what financial structures worked for other smallholder groups.



**Recommendation 2 – RSPO & Industry**  
**RSPO and buyers are recommended to invest and communicate about show case practices**

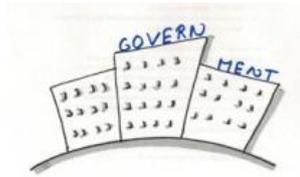
Show cases and statistic and realistic concrete conclusions drawn from these pilots help to convince smallholder groups to participate and provide proof that yields will increase and be of better quality. These show cases could be developed with the current certified smallholder groups. Smallholders benefit from higher yields and better prices. Mills benefit from better and consistent quality, resulting in better extraction rates. The industry can create show case practices, where RSPO can spread the news and provide guidance to the smallholder groups.



### **Recommendation 3 – Industry**

**Smallholder oil could be interesting from a traceability point of view**

Although the project team did not reach an agreement concerning the independent smallholder group in time, an important reason for the potential buyer to start the negotiations was based on an increasing demand to traceability in the supply chain. The potential buyer intended to sell the oil as fair smallholder certified oil and aimed at a separate physical oil supply. Negotiation with a potential retailer who was interested in the oil were already ongoing.



#### **Recommendation 4 – Government & industry**

**Include smallholders in regulations concerning biomass for bio fuels and address inclusion of smallholder certification in the bio fuel standards**

Governments in Europe and the US request that biomass for bio fuels and bio liquids meets certain sustainability criteria. An example is the EU Renewable Energy Directive, which specifies sustainability criteria related to greenhouse gas benefits, biodiversity and the exclusion of certain types of land use (change).

In these criteria, there is no specific consideration of smallholders. On the contrary: certification schemes which have not yet finalized standards for smallholders cannot include smallholder product for compliance with mandatory market. An example is the RSPO-RED scheme, which is a voluntary add-on to the RSPO standard, and can be used by mandated companies using palm oil products to show that they comply with EU-RED sustainability requirements for bio fuels. As RSPO standards for independent smallholders were not final at the time of submitting the RSPO-RED scheme to the European Commission, palm oil products from independent smallholders are explicitly excluded from mandated EU markets. Although this is not (yet) a problem in practice, as palm oil volumes going to EU bio fuel markets are very small compared to overall volumes, it does effectively exclude smallholders from certain market segments.



#### **Recommendation 5 - Step based approach for independent smallholders**

A step-based approach to include smallholders in the plantation firm's certification could motivate plantation firms as well as smallholders to work towards certification and to take time for solving underlying issues, like land title issues. There are several reasons the project team found in the pilots that would justify a step based approach of the RSPO certification for smallholders:

- A step based approach would be motivating, smallholders are allowed to learn and experience motivates them to continue with the process;
- Allow smallholders to implement income generating activities first, even though they may be less significant from a sustainability or industry point of view. For example better provision of fertilizers, improvement of field access and maintenance. The first two years should be dedicated to implementing standard operating procedures (SOP) and provision of related training.
- These two years can be followed by other criteria to be implemented, setting up organizational structures etc.
- Make sure that the smallholders understand why they have to do certain things; they often feel that they just follow rules and do not see their own benefit or the point of the rule.



**Recommendation 6 – Smallholders**  
**Peer to peer learning**

A slowly increasing number of smallholder groups have experience with the certification process. The project team encourages them to share their experience, so that other groups can benefit. Or get in touch with certified groups to benefit from their expertise en experience.

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## 3 IMPLEMENTATION PROCESS

### 3.1 Introduction

A good preparation and informed consent of the involved smallholder process are important, but yet the implementation process is crucial concerning the successful implementation of the RSPO standard. This requires a structured approach and accessible trainings concerning physical accessibility as well as at an intelligence level that meets the smallholders knowledge levels. However, that is not all. The project team reached best results with the schemed smallholder group that felt heard and was in good communication with the mill. This is not the only lesson learned concerning the implementation process. Other will be described in this chapter.

Lessons learned from the project team's implementation process

- Schemed and independent smallholders are reluctant to participate, because they cannot oversee the work they have to take up, their benefits and the consequences;
- A mapping of all expenses made by the mill, including the scheme manager, and the expenses made by the schemed smallholders, like materials for better agricultural practices, should form a basis of a fair and sustainable division of premiums (if even any);
- Certification of independent smallholder groups requires a pre-determined financial system to maintain the system after the initial certification;
- Basic training in four areas are required: technical training, business training, financial and administrative training and organizational training, as well as continuous training after the certification process by the affiliated mill.

Each will be discussed in more detail hereafter.

### 3.2 Lessons learned

***Schemed and independent smallholders are reluctant to participate, because they cannot oversee the work they have to take up, their benefits and the consequences.***

Smallholder groups and mills encounter a range of challenges in the smallholder certification process. The whole certification process from A to Z is quite a commitment of smallholders and mill, of which the final outcome is uncertain. Outcome in the sense of obtaining a certification or not, but also in the sense which set of measures that needs to be taken. When negotiations with the smallholder group started, there weren't any examples available that could be used as show case for the smallholders. It is difficult for smallholders and mill to oversee what the process comprehends and what the consequences are, work wise and financially.

***A mapping of all expenses made by the mill, including the scheme manager, and expenses made by the schemed smallholders, like materials for better agricultural practices, should form a basis of a fair and sustainable division of premiums (if any)***

Based on renewed relations between smallholders and mill a financial system for maintaining the certification process can be developed. In the current system, the mill needs to (pre)finance the cost of smallholder certification to make it attainable. Many mills are not willing or do not have the resources to bear these costs. These costs can be substantial per extra hectare for the miller. When yields are improved, as suggested, the new cash flow could form a basis for a sustainable financial system for financing the certification and collective procurement of items and materials, like safety materials and fertilizers. In addition, the payment of premiums to the smallholders has proven to be a delicate issue to discuss.

***Certification of independent smallholder groups requires a pre-determined financial system to maintain the system after the initial certification***

A short term vision and absence of good examples hampers the motivation of smallholders to implement RSPO-certification. Independent smallholders are facing major costs to participate in the RSPO-certification scheme. They need to bear the costs of a.o.:

- Annual audit;
- Employment of a scheme manager;
- Hazard-proof chemical storage and mixing areas;
- Shower and toilet facilities to remove chemical residues;
- Etc.

***Basic training in four areas is required: (1) technical, (2) business, (3) financial & administrative and (4) organizational training, as well as continuous training after the certification process by the affiliated mill***

All smallholders and the responsible scheme manager received training. The training was build up out of ten trainings of each five days. The intensive training programme created understanding why certain measures needed to be taken, how they could be taken, the reasoning behind the RSPO P&C. Training in these four areas uplifted the organizational level of the smallholder group and their practices.

Four different areas of expertise were covered during the trainings, each with the following proponents:

Technical training	<ul style="list-style-type: none"> <li>– Create understanding of sustainability</li> <li>– Provision of clear and practical overview of the P&amp;C</li> <li>– Training about the implications for farming and good agricultural practices</li> <li>– Sharing of best practices from the mill and where possible other examples</li> </ul>
Business training	<ul style="list-style-type: none"> <li>– Training about basic business principles and the role of sustainability in this</li> <li>– Learn about planning</li> <li>– Training on educating workers and colleagues</li> <li>– Relational management concerning the smallholder-mill relationship</li> </ul>
Financial and administrative training	<ul style="list-style-type: none"> <li>– Teach basic accounting principles</li> <li>– Understanding of relevant financial processes</li> <li>– Learn to maintain an administration that is required for the certification process</li> </ul>
Organizational training	<ul style="list-style-type: none"> <li>– Teaching about co operational structures, roles and responsibilities</li> <li>– Learn basic management principles</li> </ul>

### 3.3 Recommendations



#### **Recommendation 7 – RSPO** **Create an online learning environment where smallholders can meet, share and where RSPO shares good practices**

The project team met skepticism with smallholders and mills about the certification process, it was uncertain for them how they would benefit and it has been difficult to get the smallholders on board. An online platform where smallholder groups can find examples and where they can meet other smallholders and share information might be helpful in this process.

#### **Recommendation 8 – RSPO** **Provide sufficient and consistent training materials**

Although mills intent to work together with smallholders, they often do not know how and what should be done. The smallholder business case kit could be followed by a *smallholder starter kit*. This kit contains sufficient materials for smallholders and mills to work towards a successful certification. RSPO could consider providing the following (training) material for mills and smallholders:

- Detailed overview of possible structures between mill and smallholder, and clear description of roles and responsibilities;
- Training materials as per category mentioned above: technical, business, financial & administrative and organizational training materials;
- Special training for scheme managers (RSPO could even consider to provide a physical training for scheme managers a sufficient number of times per year);
- Provide information about sustainable financial structures, so that certification of the smallholder groups is possible annually and expenses can be covered;
- Provide examples that can be helpful for mill and smallholders, including bottlenecks and how these were overcome;
- Per country: an overview of a legal framework that could work to organize smallholders in cooperatives or other organizational structures.

#### **Recommendation 9 – RSPO & Industry** **Predetermined financial system for independent smallholders**

To overcome this, the project team aimed at setting up a pre-determined financial system to link the independent smallholder group to an international supply chain. This system should provide a long term sustainable financial system for the smallholders also beyond the course of the finances provided by the Dutch Ministry of Foreign Affairs. (See also page 18)



#### **Recommendation 10 – Industry** **Cooperate with smallholders in a fair and transparent way**

Working with different smallholder groups, in some cases trust between mill and smallholders is more an issue than in other cases. It needs time to build a trust relation with the smallholder groups. A transparent, fair and consistent approach would help.

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## 4 MARKET ACCESS

### 4.1 Introduction

Market access has proven to be crucial to work towards a successful certification of smallholder groups. The project team facilitated the market access in different ways. In case of the schemed smallholder group market access was mainly concerned with their supply to the mill, the role the mill could play for them and their business case. However, the independent smallholder group required a pre-determined financial structure to assure that they could cover the costs. Although the project team came far in negotiating this structure, after 2½ year of negotiations with the buyer, the project team had to cancel this pilot due to time constraints. Lessons learned can be drawn from both pilots.

Lessons learned concerning market access

- The business case for smallholders is difficult to proof with a lack of good and example practices;
- Linkage to an existing supply chain is a pre-requisite for independent smallholders to start the RSPO certification process, but might influence their independent status;
- The willingness of buyers to pay a premium for smallholder fresh fruit bunches is limited;
- Indirect benefits will have to outweigh the costs of certification.

Each will be discussed in more detail below

### 4.2 Lessons learned

#### ***The business case for smallholder certification is difficult to proof with a lack of good practices and examples***

It appeared difficult to build an attractive business case for certification of the smallholder groups. The primary reason was the lack of clarity on both direct and indirect benefits of certification. While efforts and cost related to (compliance for) certification could be clearly spelled out, it remained to a large extent uncertain which (financial and other) benefits certification could generate.

Direct benefits of certification include - in particular - price premiums for certified product. It appeared difficult to come to a solid agreement with international supply chain operators on premiums, which - amongst others - was caused by limited availability of good example practices. The question smallholders asked: "Will there be an additional increase in price to compensate for extra costs and provide extra income?", could not be answered positively. This caused discord between the smallholder groups, the mill and the project team.

Without substantial price premium for certified product, certification can only be attractive to smallholders if there are other, indirect benefits. Various indirect benefits have been identified:

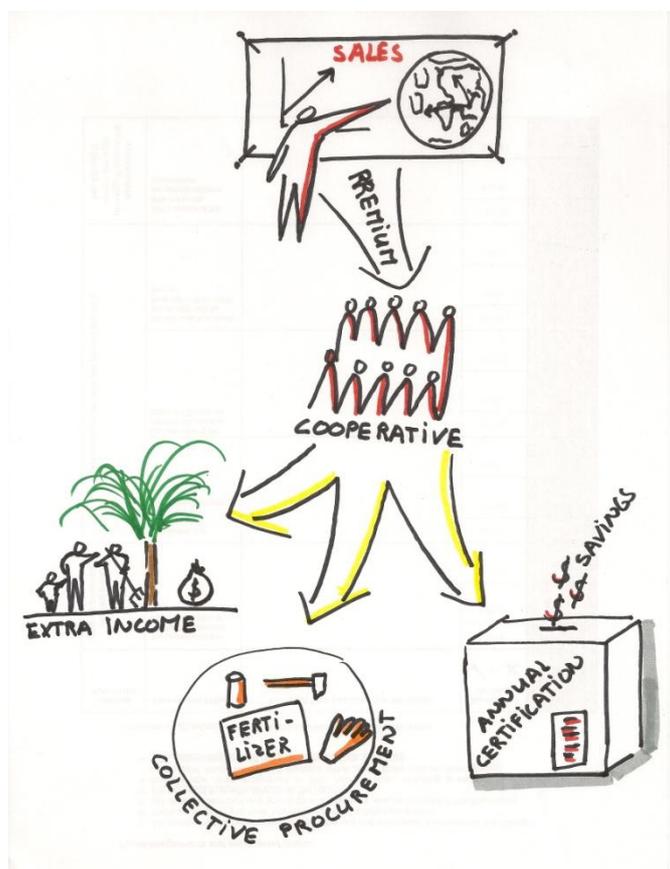
- I. It is likely that smallholders increase their yields with better agricultural practices, reduce the use of costly fertilizers and pesticides, and realize an increase of income. This example was shown in the field during the training that if better practices of field access, field maintenance,

harvesting standards are being followed the yields will increase. This pilot has been too short to proof the exact yields increase for this particular area.

- II. Positive health effect due to increased awareness on risks of pesticides, other chemicals etc.
- III. Improvements on roads and other infrastructures provided better opportunities for the smallholders to reach the mill and also made their daily working practices from and to the fields easier.
- IV. Due to the empowerment of the smallholders the relation with the mill was improved, and this resulted in better understanding between one of the smallholder groups and mill. The number of meetings between the smallholders and mill increased, this created better understanding of the importance of certain measures taken by the mill. Unfortunately the other smallholder group is more reluctant to cooperate better with the mill. Trust needs to be build and that takes time.
- V. Better investment opportunities. If the smallholder groups would be able to provide a bank with a good track record and accounts and proof an increase in return/profits there might be more funding opportunities for other business initiatives (own truck for transport of crop, replant funding etc).

It is not only the smallholders benefiting from inclusiveness. Because of the better agricultural practices, the mill may expect better and consistent quality and constant quantities to be supplied by the smallholders. The empowerment of smallholders resulted in better understanding between mill and smallholders which contributed to mutual trust and better working relations.

A complicating factor with the above indirect benefits of certification is that they only become apparent in the medium to longer-term, while costs related to certification have to be borne in the short term. This requires longer-term business planning, which is difficult for smallholders with limited financial and other resources.



**Linkage to an existing supply chain is a pre-requisite for independent smallholders to start a RSPO certification process, but might influence their independent status**

While working with one independent smallholder group it appeared that linkage to an existing supply chain was pre-requisite to join the programme. Smallholders wanted assurance that their investments would be compensated. The system which the project team set up included a premium for the smallholders.

In the proposed system (see figure page 19), the commercial buyer pays a premium to an independent foundation owned by the smallholders' cooperative and managed by the scheme manager. The foundation divides the income over

three independent categories. Part of the premium is paid to all smallholders as an extra income on top of the price they receive for their bunches. The foundation is also responsible for collective procurement. Economies of scale lowers the prices of safety materials and fertilizers. The foundation also manages a future fund. This future fund is used for annual audits and other expected collective payments.

***The willingness of buyers to pay a premium for smallholder fresh fruit bunches is limited***

One potential way to ensure that smallholders benefit from certification, is by establishing RSPO certified smallholder fresh fruit bunches/oil as a separate 'brand' from mainstream oil. This would allow supply chain actors to distinguish between smallholder fresh fruit bunches/oil and mainstream oil, and pay separate (higher) premiums for smallholder product.

Within the framework of this project, a market survey was carried out to assess market interest in separate branding of smallholder FFB/oil (certificates). The survey was undertaken in 2010, amongst some 100 RSPO members including retailers, consumer good manufacturers and palm oil processors and traders. Detailed survey results have been outlined in the separate report 'Establishing a market for RSPO certified smallholder oil - a market survey' (July 2010).

The survey highlighted that market actors consider full inclusion of smallholders in the RSPO certification system an essential precondition of the credibility of the system as a whole. However, the 2010 survey also highlighted that the then relatively new system of RSPO certification, including issues related to supply chain models and branding, presented a technical and communication challenge for many companies. Companies urged not to complicate the system further by adding a separate system/brand for smallholder FFB/oil (certificates). The survey showed little interest from market actors to purchase smallholder branded product, if it would be available, while acceptable premiums indicated were not above mainstream oil premiums.

The survey was repeated in the summer of 2012, with survey questions slightly amended to reflect the current situation as regards smallholder standards & certification. The survey results clearly showed that the technical and communication aspects of RSPO certification are less of an issue for market actors than in 2010. This is further facilitated by the fact that the GreenPalm Book & Claim system now allows separate sale of smallholder certificates, including off-market transactions. However, market interest in separately branded smallholder products – potentially entailing a higher premium- was still not apparent.

***Indirect benefits will have to outweigh the costs of certification***

Costs related to certification can be categorized as follows:

- Costs for preparation for certification. This includes investments required to comply with RSPO P&C and external assistance in the preparation process (consultancy);
- Costs related to third party auditing (certification body);
- 'Follow up costs' related to RSPO membership, surveillance audits etc.

These costs can be substantial, and it would require substantial premiums to fully recover these costs (even when these costs are lowered in future because of issues like clearer system for smallholders, availability of guidance documents and tools). Based on the experiences in this project and elsewhere, it seems unlikely that significant premiums will generally be paid in mainstream markets. Or, to put it more strongly: business cases for smallholder certification do not work if based on premiums only.

### 4.3 Recommendations



#### **Recommendation 11 – RSPO** **Set examples concerning financial structures**

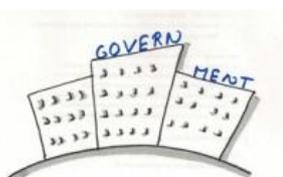
The project team aimed at working with the example of a financial structure between an international buyer and an independent smallholder group as aforementioned. This might be a possible structure. RSPO could provide a solid basis of possible financial structures and their legal, organizational and financial implications. At current, mills receive too little to provide a sufficient incentive to smallholders, although the mills the project team worked with were willing to provide input and support smallholder structures by collective procurement for example. This is all based on prior financial agreements between the mill and the smallholder group.

A bonus structure could also be put in place. It may be expected that better agricultural practices will improve the yields and also deliver more consistent quality. Mills and smallholders both benefit. Smallholders increase their income by better yield and better quality. The mill has more constant quality and quantity supplied by smallholders. When smallholders indeed improve their supply, mills could consider to pay an end of year bonus.

#### **Recommendation 12 – RSPO** **Establish a fund to make the process financially possible for smallholders and provides for a sustainable financial structure that allows future repetitive certification costs to be carried by the fund, smallholders and/or mill**

Nevertheless, not all mills have sufficient resources to support the smallholders in their certification process or independent smallholders may not receive outside support at all. To make certification equally accessible for smallholders, RSPO could consider setting up a financial fund, which builds on the recently established fund for independent smallholders, where mills and smallholders can submit proposals for smallholder certification. RSPO could either provide financial support, pay for a consultant to support the group or mill in the smallholder certification process or facilitate with a training programme. All RSPO members could make a contribution to the fund, either voluntarily or as a fixed percentage of the certificate price.

An important asset of the fund should be the provision of a sustainable financial structure that assures that future repetitive certification costs can be carried by the fund, smallholders and/or mill. Although the fund may only finance a one-cycle certification process, it can be seen as a common responsibility to set up a structure that is financially sustainable and includes the repetitive costs of certification.



#### **Recommendation 13 – Government** **Provide incentives to producers and supply chain operators who include smallholders in their value chain**

Whereas current governments set sustainability criteria focus on avoiding risks (i.a. in relation to biodiversity and land use change), they could also provide incentives to producers and supply chain operators who incorporate smallholders into their value chains. One example could be to differentiate between mandatory sustainability requirements for large producers, and for smallholders, thus making smallholder inclusion more attractive. Another example is the extra counting of smallholder product towards the mandatory bio fuel targets. In this case one tonne of smallholder

product would count more towards the overall target than one tonne of 'mainstream' product (i.e. comparable to the approach followed for double counting of second-generation bio fuels (e.g. bio fuels made from waste)).



**Recommendation 14 – Smallholders**  
**Relate and cooperate with the mill**

Two schemed smallholder groups were involved in the one pilot that is about to be certified. One of the groups experienced better relations with the mill, resulting in better support, mutual understanding and trust. The certification process went rather smooth because of the trust relation build between mill and group. For example, due to collective procurement the mill facilitated the group and also knowledge exchange was facilitated by the scheme manager. On the contrary, the other group chose to act more independently and therefore, did not improve the relation with the mill and could not fully benefit.

**Recommendation 15 – Smallholders**

**Smallholders search for an organizational structure that suits their context**

Group certification requires a structured and well-organized group which works according to local legislation. A legal structure does not only help the group to meet RSPO P&C, it also allows for a better structured communication with the mill, peer-to-peer learning, cost reduction because of mass procurement et cetera.

It is advised for smallholders to choose an organizational structure that facilitates cooperation amongst smallholders, but also with the mill and other facilities. The pilot smallholder groups were structured in a cooperative structure. Which seemed to have worked well for the smallholders. Nevertheless, following all necessary legal requirements for a cooperative remained a challenge. For example, annual meetings were not arranged and they failed to take minutes of the group meetings. Local NGOs can possibly support smallholder groups in this.



**Recommendation 16 – Industry**  
**Investigate opportunities of paying an incentive to smallholders or set up another financial structure that smallholders also benefit financially**

A constant connecting thread has been the financial incentives for smallholders. Without a current clear business case or other financial benefits for the smallholders, financial incentives appear to be crucial in a successful certification process.

**Recommendation 17 – Industry**

**Buyers wanting to integrate their supply chain may choose for independent smallholders and the GreenPalm Book & Claim system**

As per November 2012, the GreenPalm System has established a separate trading platform for independent smallholders (I.S.) products, including I.S. Palm Oil, I.S. Palm Kernel oil and I.S. Palm Kernel Expeller. In the scheme, independent smallholders can convert their certified yield of FFB via standardized ratios to certificates for the above products and place offers for these on the GreenPalm I.S. Markets. Supply chain actors can then chose to purchase I.S. Certificates to offset their physical palm, palm kernel oil usage. For more information [www.greenpalm.org](http://www.greenpalm.org)

**Recommendation 18 – Industry**

**Raise supply chain actors' awareness on (the certification of) smallholders**

It requires a significant additional effort to raise supply chain actors' awareness on (certification of) smallholders. It is necessary to bring across to buyers the message that certification of (independent) smallholders is more costly than normal certification, that smallholders cannot bear those costs themselves (unlike most large-scale plantations) and that price premiums will have to be paid to ensure smallholder inclusion in certification.



**Recommendation 19 – RSPO**

**Indirect benefits, e.g. yields improvements, need to have a prominent place in moving smallholders to RSPO compliance**

The aforementioned indirect benefits of certification will need to have a prominent place in moving smallholders towards RSPO compliance. This requires that more emphasis is placed on the methods/processes covered by the RSPO P&C, and less on the certification itself. For example: good agronomic practice (as referred to in the RSPO P&C) shall primarily be applied as a means (method) to increase yields and reduce fertilizers, and only secondary because it is a requirement for certification.

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## **5 RECOMMENDATIONS AND CONCLUSIONS**

### **5.1 Introduction**

This project, together with experiences in other projects, has shown that successful large-scale inclusion of smallholders in RSPO certification requires commitment and action from a variety of stakeholders:

- It requires a general recognition amongst stakeholders that smallholders represent a significant sustainability potential for the oil palm sector, both in terms of creating benefits to many households in the production countries and to reducing the unsustainable development of new acreage under oil palm cultivation;
- It requires further action from RSPO in facilitating smallholder certification, they could consider actions like developing guidance documents, tools, communicating about examples, by implementing the initiated funding scheme for smallholder certification;
- It requires commitment from the supply chain in uptake of certified smallholder oil, potentially at premiums higher than mainstream oil.

This chapter provides an overview of the recommendations provided throughout the document and draws conclusions.

### **5.2 Recommendations**

Each stakeholder group, smallholders, industry, RSPO and government, has to do its part to allow smallholders to be included in the RSPO certification system. From the lessons learned during the project, the following recommendations were drawn per stakeholder group.

An overview of the recommendations as provided in the previous chapters per stakeholder is provided in the table on the following page.

	RSPO P&C	Implementation	Market access
RSPO	<p><a href="#">Recommendation 1 - Providing sufficient information materials about what a certification comprehends and how smallholders will benefit</a></p> <p><a href="#">Recommendation 2 – RSPO and buyers are recommended to invest and communicate about show case practices</a></p> <p><a href="#">Recommendation 5 - Step based approach</a></p>	<p><a href="#">Recommendation 7 – Create an online learning environment where smallholders can meet, share and where RSPO shares good practices</a></p> <p><a href="#">Recommendation 9 – Predetermined financial system for independent smallholders</a></p> <p><a href="#">Recommendation 8 – Provide sufficient and consistent training material</a></p>	<p><a href="#">Recommendation 11 – Set examples concerning financial structures</a></p> <p><a href="#">Recommendation 12 - Establish a fund to make the process financially possible for smallholders and provides for a sustainable financial structure that allows future repetitive certification costs to be carried by the fund, smallholders and/or mill</a></p> <p><a href="#">Recommendation 19 – Indirect benefits (e.g. yields improvements) need to have a prominent place in moving smallholders to RSPO compliance</a></p>
Industry	<p><a href="#">Recommendation 2 – RSPO and buyers are recommended to invest and communicate about show case practices</a></p> <p><a href="#">Recommendation 3 - Smallholder oil could be interesting from a traceability point of view</a></p>	<p><a href="#">Recommendation 10 – Cooperate with smallholders in a fair and transparent way</a></p> <p><a href="#">Recommendation 9 – Predetermined financial system for independent smallholders</a></p>	<p><a href="#">Recommendation 16 – Investigate opportunities of paying an incentive to smallholders or set up another financial structure that smallholders also benefit financially</a></p> <p><a href="#">Recommendation 17 – Buyers wanting to integrate their supply chain may choose for independent smallholders and the GreenPalm Book&amp;Claim system</a></p> <p><a href="#">Recommendation 18 – Raise supply chain actors’ awareness on (the certification of) smallholders</a></p>
Smallholders	<p><a href="#">Recommendation 6 – Peer to peer learning</a></p>		<p><a href="#">Recommendation 14 – Relate and cooperate with the mill</a></p> <p><a href="#">Recommendation 18- Smallholders search for an organizational structure that suits your context</a></p>
Governments	<p><a href="#">Recommendation 4 – Include smallholders in regulations concerning biomass used for bio fuels and address inclusion of smallholder certification in the bio fuel standards</a></p>		<p><a href="#">Recommendation 13 – Provide incentives to producers and supply chain operators who include smallholders in their value chain</a></p>

### 5.3 Conclusions in a broader context

Certification schemes can be categorized in different ways. One way is to distinguish between schemes which focus on a premium niche market (like organic, Fair Trade), and schemes which intend to make certified sustainable product a mainstream commodity (like RSPO). Whereas the objective of the first category of schemes is to generate extra benefits for (groups of) smallholders, or distinguish with the quality of the product (organic), the objective of the latter category is to introduce a 'bottom' of sustainable practices for a large segment of the market and to make certified sustainable material a commodity.

The majority of the commodity-approach schemes were only developed in the last ten years, with RSPO amongst the first. The initial focus of these schemes was on certification of large-scale production units, while specific standards to allow inclusion of small producers were only developed later. Consequently, practical experience with (processes towards) certification of smallholders were initially almost absent, including in RSPO. The timing and focus of this project was right: in the right period it contributed to gaining practical experiences with processes towards certification of smallholders, and thereby facilitated the standard setting process in RSPO.

On the issue of premiums for certified material, this project has clearly shown that it is very difficult to build a business case for smallholder certification on premiums alone. For smallholder certification to happen at large scale, both in the palm oil sector and in other sectors, other benefits of certification will have to become more apparent. These benefits lie in the process towards certification, rather than in the certification itself, and include benefits such as higher yields and lower fertilizer usage (Good Agricultural Practice), solving of disputes with mills and/or other stakeholders. It is a challenge to sell these benefits to smallholders, as they are likely to only become apparent in the medium to long term (and related costs in the short term). One way to reduce the identified barriers to certification is the RSPO fund to pay for smallholder certification.

Finally, when talking on certification challenges, it also needs to be emphasized that for many palm oil smallholders certification may not be on top of their needs hierarchy: poor access to markets, lack of access to finance, limited access to information and other issues may by far outweigh the benefits certification may generate. Various examples were presented during the RT10 meeting of RSPO (Singapore, November 2012). For smallholders to benefit from a more sustainable business approach in the palm oil sector, it is crucial that these issues are tackled alongside the certification challenges.

Concerning developments at the RSPO, restructuring the smallholder taskforce into a smallholder working group is a very welcome measure and a great step forward in the improved inclusion of smallholders in palm oil certification. The increasing concern of the industry or retailers in particular, in terms of their physical supply chain can create a push for more inclusive certification for schemed smallholders as well. However, this also creates new opportunities for governments and other parties to develop other standards that are not necessarily of the same sustainability level as the RSPO standard.

The social debate on smallholders remains complex and the only resolution is that the RSPO working group will have to review the current smallholder generic standards to address the new P&C and try to be more inclusive for smallholders, without compromising the standard.

To be continued.....

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Presentations at RSPO RT10 of projects on smallholder certification available from <http://www.rt10.rspo.org/c/rt10-presentations--preparatory-clusters/>

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