

**Solidaridad**



CHANGE  
THAT MATTERS



# **THE BUSINESS CASE OF RSPO CERTIFICATION FOR SMALLHOLDERS**

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# PRESENTATION OUTLINE

**INTRODUCTION**

**THE BUSINESS CASE FOR WHOM?**

**FOUR CASES**

**CONCLUSIONS**

# WHY?

**Ambition:** Input Discussion  
on RSPO certification  
smallholders

- Smallholder certification lags behind certification of estates
- What can be done to increase uptake?
- Important to establish economic rationale
- By no means meant to be 'conclusive'





# HOW?

- **Selected 4 cases**
  - Analysed cost and benefits
- **Data**
  - Solidaridad project data
  - Interviews based on self-submitted data
  - Market information/data
- **Note: Time was short → data is rough & calculations are back of envelope style**



# THIS WAS NOT EASY

- Not everybody has time and wants to share data
- Time contributions hard to validate & benefits difficult to quantify
- Data not always 'comparable': Actual business case will differ per each situation
- We are presenting what we found per case; noting there are 'data gaps'



# TO BE MORE PRECISE

## Hard to quantify Investments

- Investment own time and resources hard to measure
- Difficult to separate 'one off costs' and 'investments': e.g. Once a team can train 100 people, it can also train next 100 people
- For SH certification many 'costs' absorbed by mill

## Hard to quantify Benefits

- Yield increase not only influenced by GAP, but also by age of trees & weather
- Data on OER not monitored / given
- Some benefits quite intangible like 'Better Relations'





SO,

We give what we found noting that:

- Calculations are rough: 'back of an envelope' style
- Data set is very limited and there are 'dataGAPs'
- Circumstances differ per case and of individual & changing circumstances
- By no means meant to suggest this is representative for more cases







THE BUSINESS CASE FOR  
WHOM?



# THE BUSINESS CASE FOR MILLS

| <b>Benefits</b>   | <b>Costs</b>  |
|---|---|
| <b>Fruits</b> <ul style="list-style-type: none"><li>▪ More FFB</li><li>▪ Better Quality FFB</li><li>▪ Higher OER</li></ul>            | <b>Investments</b> <ul style="list-style-type: none"><li>▪ Set Up / Introduction Scheme</li><li>▪ Invest in Training</li><li>▪ Certification Costs</li><li>▪ Premium for certified product?</li></ul> |
| <b>Market Acces/Premium</b> <ul style="list-style-type: none"><li>▪ Better Market Access</li><li>▪ Premium certified volume</li></ul> | <b>Running Costs</b> <ul style="list-style-type: none"><li>▪ Scheme Manager</li><li>▪ Support System</li><li>▪ Annual Audit</li></ul>   |
| <b>Better Relations</b> <ul style="list-style-type: none"><li>▪ More smallholders deliver fruits</li><li>▪ Less conflict</li></ul>    |   |





# THE BUSINESS CASE FOR SMALLHOLDERS

| Benefits  | Costs   |
|---|---|
| <b>Better Agricultural Practices</b> <ul style="list-style-type: none"><li>▪ More FFB</li><li>▪ Better Quality FFB</li><li>▪ Higher OER</li><li>▪ Fruits not sent back</li><li>▪ Reduced fertiliser/pesticide use</li></ul> | <b>Investments</b> <ul style="list-style-type: none"><li>▪ Training – <b>In case associated SH often borne by mill</b></li><li>▪ Group organisation - <b>in case of associated SH often borne by mill</b></li><li>▪ Certification costs - <b>in case of associated SH often borne by mill</b></li><li>▪ Better pay labourers in present</li></ul> |
| <b>Market Acces/Premium</b> <ul style="list-style-type: none"><li>▪ Premium certified volume</li></ul>  | <b>Running Costs</b> <ul style="list-style-type: none"><li>▪ Scheme Manager</li><li>▪ Surveillance costs</li></ul> <b>In case of associated SH often borne by mill</b>  |
| <b>Better Relations</b> <ul style="list-style-type: none"><li>▪ Mill gives free training</li></ul>  |   |

# FOUR CASES

- Three mills with associated / independent smallholders
- One independent smallholder group







# OVERVIEW

| <b>Mills/SH group</b>                   | <b>Time Needed</b>   | <b>SH</b> | <b>Ha</b> | <b>Average ha/SH</b> | <b>Yield at end of project</b> |
|---|--|-----------|-----------|----------------------|--------------------------------|
| <b>Benso Oil Palm Plantation, Ghana</b> | June 2012 – Aug. 2014<br>(2+ years)                              | 438       | 1,650     | 3.77                 | 14 ton FFB/ha/year             |
| <b>Keresa Mill, Sarawak, Malaysia</b>   | Jan. 2010 – Nov. 2010<br>(< 1 year)                              | 54        | 357       | 6.6                  | 9 ton FFB/ha/year*             |
| <b>Natural Habitats Group, Ecuador</b>  | June 2013 – Sept. 2013 & Sept. 2014<br>(2 groups: 4 & 16 months) | 104       | 3,316     | 32                   | 12 ton FFB/ha/year             |
| <b>Setara, Indonesia</b>                | 2009- 2014   | 227       | 347       | 1.5                  | 13 ton FFB/ha/year             |

\* Mill reception data

# BENSO OIL PALM PLANTATION



| 438 sh<br>1650 ha | Investment:<br>BOPP & Sol  | Benefits MILL<br>After 2 years   | Benefits SH<br>After 2 years   |
|-------------------|--|--|--|
| TOTAL             | <ul style="list-style-type: none"> <li>▪ <b>€34,280</b></li> <li>▪ Organization trainings, materials, ICS, preparation &amp; certification – cash and kind</li> </ul> <p>Running Cost: TBD</p> | <p><b>More FFB</b></p> <ul style="list-style-type: none"> <li>▪ Increased supply of FFB to the mill:<br/>10 → 14 ton FFB/ha</li> <li>▪ If mill profit is 5 Euro /ton FFB → <b>potential extra profit 20 Euro /ha</b></li> </ul> <p>Opportunity to sell GP certificates:</p> <p><b>Potential Return:</b><br/><b>€20 /ha *2</b></p> <p><b>Total: €40 /ha</b></p> | <p><b>More FFB</b></p> <ul style="list-style-type: none"> <li>▪ Yield increase:<br/>10 → 14 ton FFB/ha</li> <li>▪ FFB price: €55 /ton</li> <li>▪ 10 t/ha: €550 /ha</li> <li>▪ 14 t/ha: €770 /ha</li> </ul> <p><b>Potential income increase: ~€220 /ha</b></p> <p>Farmers avg 3.8 ha.</p> <ul style="list-style-type: none"> <li>▪ <b>Potential extra income/farmer/year: €329</b></li> </ul> |
| Per ha.           | <p>Investment:</p> <ul style="list-style-type: none"> <li>▪ <b>€51 /ha</b></li> </ul>  |  |  |
| Per farmer        | <p>Investment:</p> <ul style="list-style-type: none"> <li>▪ <b>€192 /farmer</b></li> </ul>   |  |  |

# CONCLUSIONS

- If RSPO certification leads to yield increase, it can bring substantial extra income for farmers
- Mill profit expected to increase through yield increase
- Potential certificate sales provide additional reward for mill
- Actual BC will depend on mill costs and profit margin



# KERESA



| 54 sh<br>357 ha | Investment:<br>Keresas &<br>Solidaridad   | Benefits MILL   | Benefits SH  |
|-----------------|---|---|--|
| TOTAL           | <ul style="list-style-type: none"> <li>▪ <del>€</del><b>32,452</b></li> <li>▪ Organization trainings, materials, ICS, preparation &amp; certification – cash and kind</li> </ul> <p>Running Cost: TBD</p> | <p>Difficult to quantify;<br/>Reported to be happy:<br/>More FFB, Higher Quality, More secure supply</p> <p>Reported to consider expanding scheme in 2015</p> | <p>Difficult to quantify;</p> <ul style="list-style-type: none"> <li>▪ No premium is paid to SH</li> <li>▪ Access to technical support</li> <li>▪ Reduced costs are reported;</li> </ul> <p>When asked, farmers indicated to be very happy with scheme</p> |
| Per ha.         | <p>Investment:</p> <ul style="list-style-type: none"> <li>▪ <del>€</del><b>231/ha</b></li> </ul>  | <p>Potential income through certificate sales:</p>  |  |
| Per farmer      | <p>Investment:</p> <ul style="list-style-type: none"> <li>▪ <del>€</del><b>1,527 farmer</b></li> </ul>  | <p>€5,520/year *1<br/><b>€16 /ha/year</b></p>   |  |



# KERESA: CONCLUSIONS

- Too little data to draw real conclusions. In particular it is difficult to quantify benefits.
- Mill reported to see clear benefits: security of supply, high quality FFB, higher OER
- Smallholders also indicate they are happy: guaranteed market access, high yields, good prices
- Keresasa has shown interest in scaling up the scheme





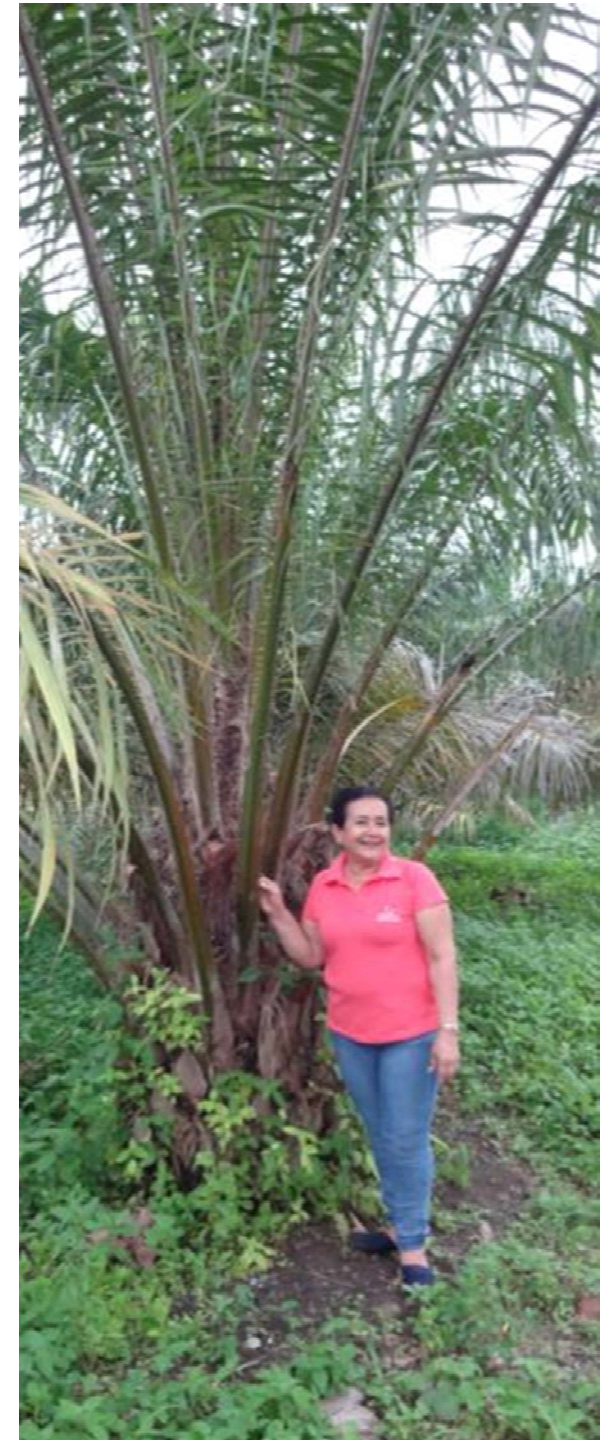
# NATURAL HABITATS GROUP



| 104 sh<br>3316 ha | Investment NHG  | Benefits Mill  | Benefits SH   |
|-------------------|---|--|---|
| TOTAL             | <ul style="list-style-type: none"> <li>▪ <b>€105,000</b></li> <li>▪ Trainings, preparation &amp; certification – cash only</li> </ul> | <p><b>More FFB</b></p> <ul style="list-style-type: none"> <li>• Increased supply of FFB to the mill:<br/>8 → 12 ton FFB/ha</li> <li>• OER 20%</li> <li>• 1.6 → 2.4 ton CPO/ha</li> <li>• <b>Potential extra return: €150 /ha *1</b></li> </ul> | <p><b>More FFB</b></p> <ul style="list-style-type: none"> <li>• Yield increase:<br/>8 → 12 ton FFB/ha</li> <li>• Higher Price ton FFB:<br/>€120 → €140</li> </ul> <p>Income /ha:</p> <ul style="list-style-type: none"> <li>• <b>Income increase: €720 /ha</b></li> <li>• 8 x €120 = €960/ha</li> <li>• 12 x €140 = €1680/ha</li> </ul> |
| Per ha.           | <ul style="list-style-type: none"> <li>▪ Investment: <b>€31 /ha.</b></li> </ul>   | <p>Potential Sales of certs:<br/>NA –NHG is also certified organic and gets premium for organic/RSPO</p>   | <p>Per farmer:</p> <ul style="list-style-type: none"> <li>• <b>Revenue increase: Avg. €23,000 /farmer/year</b></li> <li>• €30,610 → €53,550.</li> </ul>   |
| Per farmer        | <ul style="list-style-type: none"> <li>▪ Investment: <b>€1,010 /farmer</b></li> </ul>   |  |   |

# NHG REMARKS 1

- Case hard to compare as NHG is also certified organic
- Ecuadorian smallholders generally have low yields, so there are a lot of gains in productivity for both smallholders and the mill
- Around 45% of investment is one-time: now planning to scale up to 800-1000 smallholders
- Auditing costs in Latin America extremely high: \$25,000 – lack of local auditing capacity





## NHG REMARKS 2

- Challenge to ensure the SH comply with labor laws for their workers: housing, formalized contracts, social security & minimum salaries
- NHG approach:
  - Pay higher price
  - Support with implementation:
    - Company helps with investments in toilet and sink (pay labour) - smallholders pay the building materials.
    - If smallholders want to do more, can get a loan
  - Farmer Support Platform – to provide continuous support
- Ecuadorian social & environmental law very strict → farmers appreciate support with compliance

# NHG: CONCLUSIONS

- Because NHG sells 'organic,' hard to compare with other cases
- Farmers can have substantial extra income through yield increase
- Mill profit expected to increase through yield increase
- High legal standards – that are enforced in practice – facilitate implementation better standards





# SETARA, JAMBI

| 227 sh<br>350 ha. | Initial Investments up to<br>certification   | Benefits after 3 years   |                      |                         |
|-------------------|--|--|----------------------|-------------------------|
| TOTAL             | <ul style="list-style-type: none"> <li>▪ <b>€32,000</b></li> <li>▪ Group organization, trainings, preparation &amp; certification</li> </ul> | <ul style="list-style-type: none"> <li>▪ No yield increase</li> <li>▪ Certificate sales<br/><b>€14,500 /year</b></li> <li>▪ Reduced fertiliser cost</li> <li>▪ <b>€11,700 /yr</b></li> </ul> |                      |                         |
| Per ha.           | <ul style="list-style-type: none"> <li>▪ <b>€234 (total)</b></li> </ul>  | Certs<br>€41/yr  | Fertiliser<br>€33/yr | Total<br><b>€74 /yr</b> |
| Per farmer        | <ul style="list-style-type: none"> <li>▪ <b>€361 (total)</b></li> </ul>  | €64/yr   | €51/yr               | <b>€115/yr</b>          |



# POTENTIAL TO RECUPERATE ANNUAL OPERATIONAL COSTS



| 227 sh<br>350 ha. | Annual Operational Costs<br>as of RSPO certification  | Benefits : Certificate Sales                |   |   |
|-------------------|---|---|---|---|
| TOTAL             | <ul style="list-style-type: none"> <li>▪ <b>€19,000</b></li> <li>▪ Group management, surveillance audit, RSPO fees</li> </ul> | <b>CPO \$1</b><br><b>PKO \$70</b><br>€5,820 | <b>CPO \$15</b><br><b>PKO \$120</b><br>€ 19,530 | <b>CPO \$20</b><br><b>PKO \$ 140</b><br>€24,600 |
| Per ha.           | <b>€54</b>  | <b>€17</b>                                  | <b>€56</b>                                      | <b>€70</b>                                      |
| Per farmer        | <b>€85</b>  | <b>€26</b>                                  | <b>€86</b>                                      | <b>€108</b>                                     |



## SETARA: OTHER BENEFITS

- **Smallholders reported more benefits which are less easy to quantify. NOTE: These benefits came through organisation and good agricultural practices (not because of certification)**
  - Prevention of losses from improper harvesting and reduction FFB's sent back by mill
  - No longer selling FFB's through middleman, but directly to mill: higher net price
  - Improved soil quality as a result of GAP
- Indonesian government subsidy:
  - €13,000 / group to invest in savings and credit facility
  - 35 cows / group – also to be used for organic fertilizer
- Increased food security: have used land to plant vegetables
- Nearby mill has seen benefits of including smallholders – is now offering free training to surrounding smallholders

# SETARA: RECOMMENDATIONS

- Farmers need support from the government (through local regulation) to ensure that sustainably produced (certified) FFB's do not have the same price as un-certified FFB's.
- Certification for independent smallholders should be simple and inexpensive, while maintaining assurance of responsibility and accountability





# OVERVIEW RESULTS

| Project                                 | Cost /ha | Return               |                              |
|---|----------|----------------------|------------------------------|
|   |          | Increased FFB Supply | Potential Certificates Sales |
| <b>Benso Oil Palm Plantation, Ghana</b> | €51 /ha  | € 20/ha/yr           | €20 /ha/yr                   |
| <b>Keresa Mill, Malaysia</b>            | €231 /ha | NA                   | €16 /ha/year                 |
| <b>Natural Habitats Group, Ecuador</b>  | €31 /ha  | €150 /ha             | NA                           |
| <b>Setara, Indonesia</b>                | €234 /ha | NA                   | Between €17- 70 /ha          |

# SETARA: CONCLUSIONS

- Benefits of setting up a farmer group, Better Practices, and certification go beyond quantifiable things like certificate price
- At current certificates prices, it is impossible to recuperate annual operational costs through certificates sales
- Also cannot recuperate investment costs
- Project is quite unusual in that yields did not increase





# CONCLUSIONS

- These calculations are 'back of an envelope' style
- Data set is very limited and there are GAPS
- Would be interesting to have more cases and more complete data



# CONCLUSIONS: MILLS

- It will depend – among other factors - on mill margin and capacity if it is attractive to invest
- If yield increase is possible, this increases attractiveness
- If yield increase is not possible/not achieved, there can still be other benefits like better relationships and certificate sales, or market access



# CONCLUSIONS: SMALLHOLDERS CERTIFIED WITH MILL

- The business case for smallholders certified with mill is difficult to calculate
  - Mills have absorbed most costs
  - Smallholder costs are not analysed
- If yield increases are realised, this generally seems to benefit SH most, but also interesting for mills





# CONCLUSIONS: INDEPENDENT SMALLHOLDER GROUP

- Benefits of setting up a farmers group, Better Practices, and certification go beyond quantifiable things like certificate price
- Even with relatively high certificates prices, it is difficult to recuperate annual operational costs through certificates sales
- The investment costs are not rapidly recovered → good reason for existence of RSPO RSSF







# CONCLUSIONS & NEXT STEPS

- Calculations are ‘back of an envelope’ style & data set is very limited
  - Need more systematic research
- RSPO certification can be a way to bring livelihood improvements for smallholders, in particular when they lead to higher yields and lower costs; But not all cases lead to business case
- There are benefits beyond what is easily quantifiable: eg better relations with the mill
- Certification costs turn out to be quite high, in particular in Africa and Latin America
  - Are there ways to reduce verification/certification costs?

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THANK YOU FOR YOUR  
ATTENTION

MARIEKE LEEGWATER, SOLIDARIDAD





SUSTAINABILITY  
**WHAT'S NEXT?**