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Deutsches Institut für
Entwicklungspolitik



German Development
Institute

Sustainability Standards for Palm Oil and Inclusive Green Growth – Synergies and Trade-Offs

PEGNet Workshop “Green and Social”

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Sustainability standards to foster „inclusive green growth“?

1. What are the main benefits of smallholder certification – and to what extent they include both economic and environmental sustainability dimensions?
2. To what extent are there trade-offs between economic and environmental sustainability?

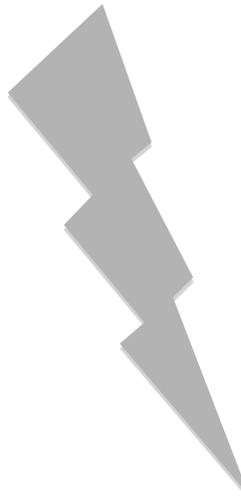
Trade-Offs between Economic and Environmental Sustainability?

- 1. Environmental Benefits but Smallholder Exclusion:**
diffusion of standards that aim at environmental sustainability may undermine the socioeconomic situation of smallholders – insofar as standards generate market exclusion
- 2. Economic Benefits but Perverse Environmental Effects:**
socioeconomic benefits of certification may have perverse implications for environmental sustainability – insofar as they increase incentives to expand palm oil plantations, including into forested areas

1. Introduction
2. Sustainability Standards and the Inclusion of Smallholders
3. Data Collection
4. Benefits of Smallholder Certification – Economic and Environmental?
5. Trade-Offs between Economic and Environmental Sustainability?
6. Conclusion and Recommendations

1. Introduction: Palm Oil - Great Potential, Great Risks

Economic vs. Environmental Concerns



2. Why Sustainability Standards?

Setting the Scene in Indonesia

- Greenpeace campaigns
- US boycott
- Burning Leuser National Park



**Increasing requests for sustainable
palm oil**

Public and private standards as
instruments



Standards as Tools for Increased Sustainability

- Standards as instrument to tackle sustainability concerns
- Increasing relevance of sustainability standards in agriculture

Sustainability standards...

...reduce information asymmetries along
the supply chain

...create sustainable markets

...depend on demand and consumer
willingness to pay

...reduce reputational risks

RSPO



RSPO – Roundtable on Sustainable Palm Oil

Private multistakeholder initiative, pushed by Unilever, Nestlé and WWF

RSPO

Economic Sustainability



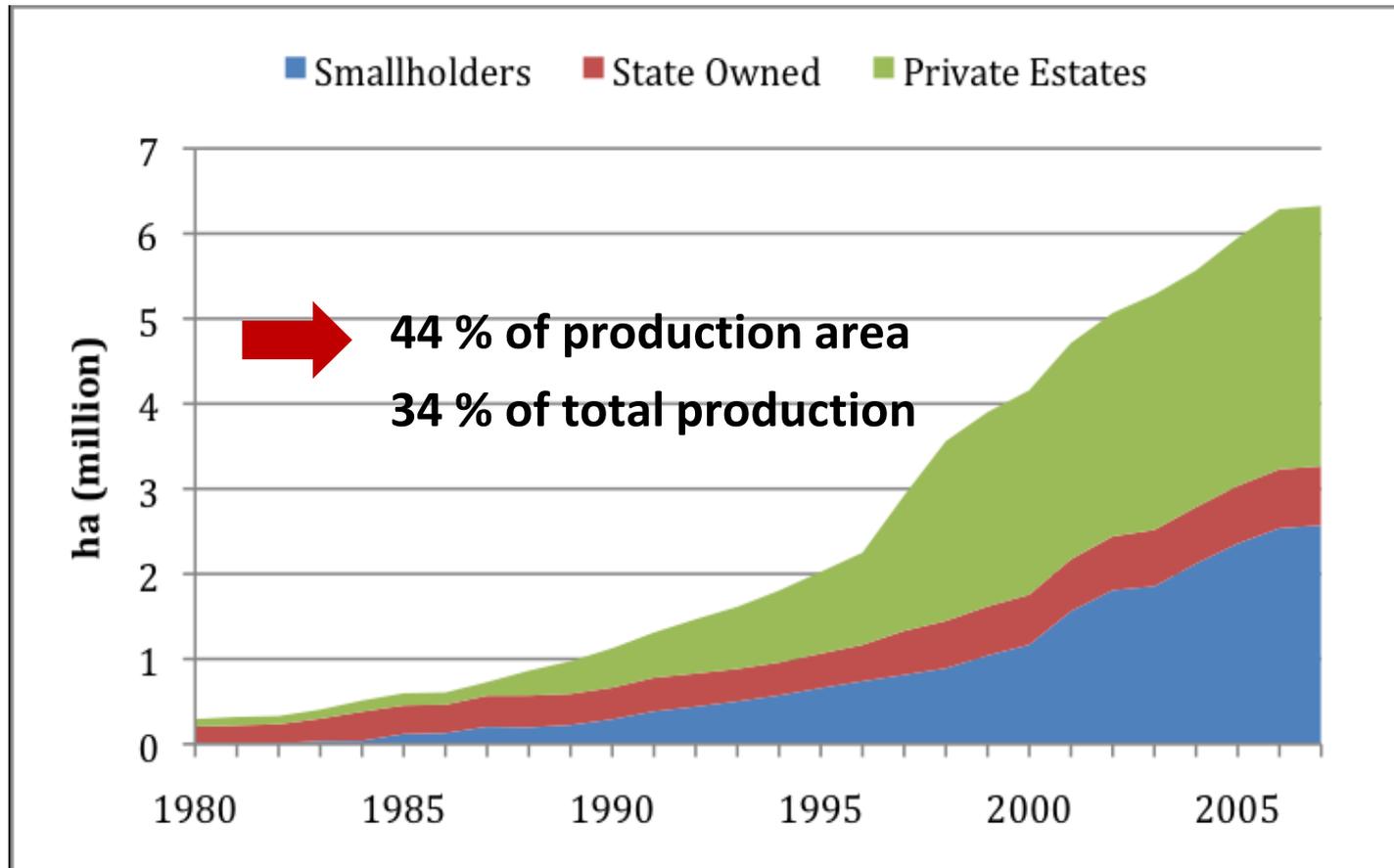
Social Sustainability

Environmental Sustainability

A main focus of smallholder certification is on Good Agricultural Practices (GAP)

Smallholders – Why important?

Production Area in ha (million)



Scheme Smallholder:

- Tied to plantation and mills
- Guaranteed purchase of harvest

Independent Smallholder:

- Operate independently through all phases of production
- No guaranteed purchase of harvest

Project Partners & Research Objectives



Indonesian Ministry of
Agriculture



Indonesia



RSPO /RILO
Indonesia Liaison Office

- Baseline data to support smallholder certification
- Insights and lessons from ongoing certification projects
- Input for existing research gaps, especially regarding:
 - challenges on the ground
 - independent smallholders

Methodology	February & March				
	<u>Jakarta</u>				
Expert interviews (20)					
		<u>Field Work: Sumatra</u>			
		South Sumatra: scheme	North Sumatra: independents	Jambi : independents	Riau: Indep.
Survey with 217 smallholders		✓	✓	✓	
Semi-structured interviews (55) with smallholders, experts, mills, collectors and group heads		✓	✓	✓	✓

Sampling

Identification methods

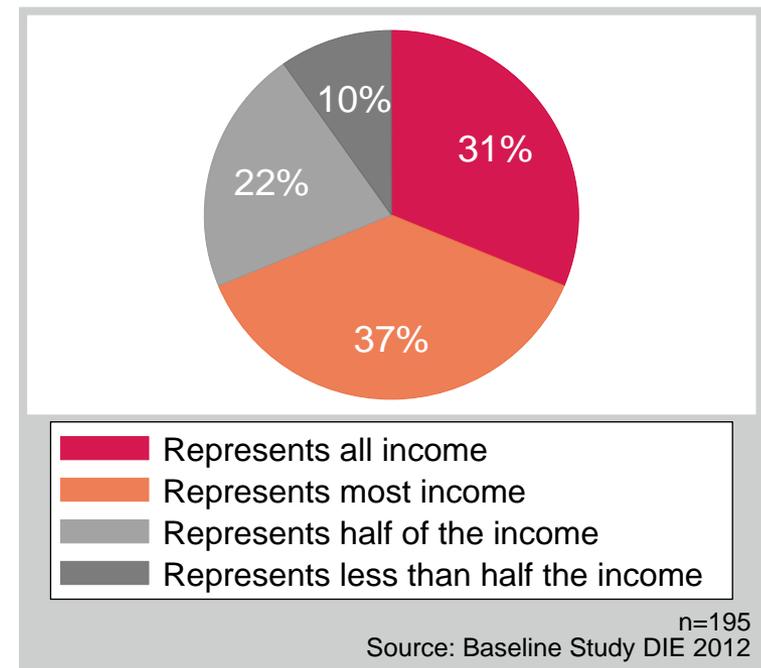
- (1) Random selection from RSPO training participants' lists
- (2) Random selection from smallholder group (kelompok) membership lists
- (3) "knocking on doors"

Sample not representative for all smallholders in province or in Indonesia

Sample Description: Independent Smallholders

- Median plantation area: 2ha (n=194)
- 45% of smallholders in our sample: monthly palm oil income of 268 USD or less (n=192)
minimum wage 2012: 123 USD
- For 68% of smallholders in our sample: palm oil income represents most important income source (n=195)

Figure: Contribution of palm oil income to total income



4. Benefits of Smallholder Certification

Benefits in Literature Review	Findings from the Field
Environmental benefits	
Large-scale, e.g. less deforestation	Difficult without proper setting
Small-scale, e.g. less chemicals	Potential exists
Economic benefits	
Higher Yield	Most important realizable benefit for smallholders
Better quality (oil extraction rate)	Benefit depends on selling structure
Price premium	Currently negligible
Market access	Currently no danger of market exclusion

5. Trade-Offs

Economic Sustainability

Environmental Sustainability

Two Concerns

1. Environmental Benefits but Smallholder Exclusion
2. Economic Benefits but Perverse Environmental Effects

Environmental Benefits but Smallholder Exclusion

Concern: Exclusion of Smallholders

Diffusion of standards that aim at environmental sustainability may undermine the socioeconomic situation of smallholders – insofar as standards generate smallholder exclusion

Insights from Field Research:

- no market exclusion of smallholders
- Smallholders are still able to sell uncertified palm oil

But:

- Demand for sustainable products is rising
- Smallholder certification requires external support as it demands capacities that smallholders often lack
- Without external support, smallholders may in the future be excluded from markets that demand sustainable products

Economic Benefits but Perverse Environmental Effects

Concern: Perverse Incentives

Socioeconomic benefits of certification may have perverse implications for environmental sustainability – insofar as they increase incentives to expand palm oil plantations, including into forested areas

Insights from Field Research:

- Smallholder certification generates substantive socioeconomic benefits, above all by increasing yield
 - Increased economic attractiveness of palm oil
 - Increased financial capacities for expanding palm oil plots
- Survey: 39% (n=66) of smallholders stated that they would expand into an area that is covered by forest

Aiming for „inclusive green growth“ on the basis of smallholder certification can entail major trade-offs

- Socio-economic concern: smallholder exclusion
- More acute environmental concern in the context of smallholder certification: perverse environmental effects

Recommendations

- **Supporting smallholder certification – but with a clear focus on environmental sustainability**
 - increasing environmental dimensions of training for smallholders
 - following example of smallholder project in Riau: exclusion from certification if palm oil plot is expanded into critical areas, contract and social pressure against deforestation
- **Making smallholder certification more effective with a view to environmental sustainability**
 - Making standards stricter, closing existing loop-holes
 - Improving political and economic framework conditions for more effectiveness (e.g. better land-planning, better monitoring of protected areas)

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Thank you for your attention!

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