Introduction

Indonesia is the largest palm oil producer and exporter in the world. In the past, the palm oil industry was dominated by big state and private companies, but since 1984 oil palm smallholdings have increased. In 2002, the total area of smallholdings reached 35% of the country’s total oil palm plantation area; this increased to 42% in 2003, and was 41% in 2018. Accordingly, smallholder producers must play active roles in the global palm oil supply chain.

Inclusive supply chains are intended to include participation by all players for mutual benefits. The success of an inclusive supply chain can be measured through four components: ownership, voice, risk and reward (Huppert 2015; Sjaw-Koen-Fa, Blok and Omta 2018). Unfortunately, surveys in ten Indonesian provinces...
show that palm oil has undoubtedly increased smallholders’ income, but not necessarily their participation (Chalil et al. 2016).

The cases and conceptual analyses presented in this article provide insights on various aspects of smallholder inclusion. One influencing factor is the RSPO sustainability certification, which is widely demanded by global markets. Certification is expected to improve smallholders’ inclusion in the global supply chain.

**Does RSPO certification support smallholder inclusion in the global supply chain?**

There is a long and complex supply chain from oil palm producers to final consumers. Both direct and indirect interactions between participants in the supply chain are further complicated by the different demand and regulations in various countries. The demand for sustainable certified palm oil is increasing, be it local or international, mandatory or voluntary, especially in European countries.

Local mandatory certification programs have been developed in Indonesia (the Indonesian Sustainable Palm Oil, or ISPO) and Malaysia (the Malaysia Sustainable Palm Oil, or MSPO). International voluntary certification is used by the stakeholders of the Roundtable on Sustainable Palm Oil (RSPO). RSPO’s certification initiative was introduced in 2007 and is evaluated every five years. The inclusion of smallholders has been addressed implicitly through the transparency criteria in 2007 and 2013. In 2018, smallholder inclusivity was explicitly stated in criteria 5.1 and 5.2.

In 2018 RSPO certification has 7 principles: 1) behave ethically and transparently; 2) operate legally and respect rights; 3) optimize productivity, efficiency, positive impacts and resilience; 4) respect community and human rights and deliver benefits; 5) support smallholder inclusion; 6) respect workers’ rights and conditions; and 7) protect, conserve and enhance ecosystems and the environment. Although the 2018 certificate has fewer principles, it has more total indicators that need to be fulfilled. To date, however, the 2018 revision has not been implemented.

The use of RSPO certification is growing, showing its increasing acceptance as a means of verifying sustainable management practices in the global supply chain. Physically, certified sustainable palm oil (CSPO) is not significantly different from non-certified palm oil. The certification reflects consumers’ ethical choice to improve the environment and conserve tropical forests.

Similar beliefs appear on the supply side. Significant increases in certified areas reflect efforts from the growers to preserve the environment. In 2007, when RSPO certification was introduced, only 106,384 ha of oil palm plantation area were certified; a decade later this had increased to 2,859,766 ha, a 26-fold increase.

Smallholder areas account for more than 40% of the total oil palm plantation area (RSPO 2018 and 2019a). Included in the total certified area are 325,655 ha of certified smallholding areas. This is a relatively small proportion, partly due to smallholders’ technical and managerial limitations, compared to those of state and large private companies. RSPO accommodated these limitations by developing special criteria for smallholder certification, which are reflected in the 37 and 39 criteria for independent and schemed smallholders, respectively.
However, even though the principles and criteria (P&Cs) are specially tailored to smallholders, most of them still find the P&Cs difficult to deal with (Chalil and Barus 2018). One challenge is the recording and documenting process. Previous studies in North Sumatra, South Sumatra, Riau and Jambi (Chalil and Barus 2012; 2016; 2018) showed that more than 80% of smallholders did not keep any records, even though they had implemented some RSPO criteria. Data from 282 smallholders in North Sumatra show that only 20–40% of those who had implemented RSPO criteria were able to provide documentation and records (Chalil and Barus 2012). Each criteria in the RSPO certificate has indicator(s), and about one-third of these indicators are related to “implementation/practices and knowledge” aspects; the rest of them are related to documents and records.

Another challenge comes from the combination of high certification costs and the lack of clarity about the price premium needed to cover the extra expenditures required to implement the RSPO principles and criteria.

Since 2015, the growth of the certified area in Indonesia has fluctuated. The amount of the price premium depends on negotiations between the seller (grower and exporter) and buyer (consumer, processor or trader). Some of the certified palm oil is even sold as non-certified oil, with no price premium at all. Even so, growers still implement some principles and criteria, especially those related to better cultivation and harvesting techniques. However, RSPO certification also covers social and environmental aspects, and the extra efforts and expenditures needed to fulfill these aspects would not improve growers’ productivity and quality. These aspects need to be factored in when calculating the price premium. Until 2017, only 56% of certified sustainable palm oil was traded with a price premium.
Partnership, certification and inclusivity

Partnerships are widely acknowledged as a way to address smallholders’ weakness and their inclusivity (e.g., Charlemagne et al. 2015; Devaux 2016). Standards and certification systems have introduced a new form of partnership between civil society organizations and businesses, which has shifted the context of sustainable production and consumption in important ways. Companies with good technical and managerial competencies have proved to be valuable partners for smallholders. Moreover, since fresh fruit bunches need to be processed within 24 hours, partner companies also need to own mills. The RSPO smallholder certification is a group certification, so the impact of a partnership between smallholders and companies is also influenced by smallholders’ institutional capacity and management type.

The link between inclusivity and certification was analyzed in four oil palm-producing areas of Indonesia: North Sumatra, South Sumatra, Riau and Jambi. There were four types of partners: government company, local private company, local private companies and NGOs, and foreign companies, and three types of smallholder organizations: cooperatives, associations and joint groups. Data was collected from 194 schemed smallholders and 197 independent smallholders, covering three stages of RSPO certification: socialization (non-certified), preparation for certification, and certification (Chalil and Barus 2018); see Figure 1. Five types of partnerships resulted.

The level of inclusiveness was measured through ownership, voice, reward and risk. Ownership refers to land status, land size and group assets. Reward refers to improvements in productivity, selling price and income. Voice refers to the involvement of smallholder representatives in price meetings, the bargaining power of smallholders with traders and mills, and membership in smallholder organizations.
Risk refers to smallholders dealing with risks related to production and price/market; the more involved they are, the greater their inclusiveness. Production risks relate to the responsibility of smallholders in production, whether it is managed directly by them or indirectly by partner companies. Price/market risks include the trade system, conducted individually or collectively through smallholder groups, and involves bargains with traders or simply using the government price at the mill gate.

Figure 1. Level of inclusiveness of various types of partnership

Source: Chalil and Barus (2018)

The total scores of these components show the level of inclusivity for each type of partnership. Each component was scored: 0–3 for ownership; 0–3 for reward; 0–3 for voice; and 0–4 for risk. Partner companies in all four types of partnerships are involved in addressing and improving smallholder technical and managerial skills. Companies have their own mills and purchase and process smallholder production directly without involving middlemen, which improves sales and selling prices. Only a few companies dominate the palm oil market; palm oil supply is controlled by a huge number of smallholders and only a few mills. Therefore, the integration of smallholders and companies is considered as shifting price/market risks from smallholders to the companies. Integration could, however, also increase smallholders’ dependency on their partners, and overdependence on any single buyer should be avoided. Independent smallholders (without a partner) have lower scores than the schemed smallholders for the other three components: 1.21, 0.54 and 1.14 for ownership, voice and reward, respectively. The level of inclusiveness for each type of partnership is presented in Figure 1.

Figure 1 shows the five types of partnership between smallholder groups and companies: 1) smallholder association-local private company; 2) cooperative-foreign private company; 3) forum or joint group local private company and NGO; 4) cooperative-local private company; and 5) cooperative-state
company. No partner or independent smallholders were included as the baseline. Data show that certification seems to improve inclusivity; uncertified smallholder cooperatives had lower inclusivity scores than the certified ones. The highest voice score was given to the partnership that involves an NGO as the smallholders’ partner. The NGO has considerable experience and expertise in empowering communities, thus significantly improving smallholders’ ability to participate. In general, company partners focus on technical aspects while also helping with managerial aspects.

If the “to-be-certified” category is excluded, all of the scores indicate a positive impact of certification on smallholder inclusivity. For example, there is an increase in the reward score for smallholders post-certification. Scores differ among cooperatives, associations and forums. Cooperatives are business units, thus likely to focus on income generation, which causes smallholders to have higher reward scores: However, all of the schemed smallholders received a higher selling price.

Similarly, certification also improved the voice of smallholders, but in such a long supply chain this aspect needs to be improved both horizontally and vertically. Horizontal improvement refers to coordination among growers, such as within smallholder organizations, and would help cooperatives meet their goal of one person-one voice. Vertical improvement refers to direct and indirect links between smallholders and other players along the supply chain. This study analyzed direct links through smallholder involvement in local price meetings and their bargaining processes with traders and mills. (Indirect links with other players such as foreign buyers or end consumers were not addressed in the study.) An example of a direct link is evident in the RSPO annual meeting, which provides special smallholder sessions. Since smallholders come from a range of cultures and often lack capacity, they may face difficulties in attending the sessions, from registration to getting involved in discussions. Therefore, this approach is unlikely to be effective in raising the voice of smallholders (Cheyns 2011).
Consumer inclusiveness, commitment and action

Most inclusive projects tend to focus on linking weak players to markets and to the value chain. Inclusiveness has been defined as a way to link small business to the market. In fact, exclusion does not always happen because of circumstances; it sometimes happens by choice. In this case, smallholders were excluded by circumstances: they could not meet the global market demand for certified sustainable palm oil. However, consumers who demand certified sustainable palm oil (CSPO) could also be excluded from the CSPO supply chain if they choose not to pay the premium price. By choosing to treat the CSPO as a non-certified CPO and not paying the appropriate price premium, consumers are excluded from the CSPO supply chain by their own choice. This could be harmful to and risky for the sustainability of the CSPO supply chain.

Smallholder FFB is a derived demand from end-product consumption. The willingness of end consumers to pay a premium determines the price for all products along the supply chain, including smallholder FFB production. Certification does not change the quality of palm oil products, however, and consumers pay a premium only to support their ethical choice for environmental conservation. In fact, not all consumers, processors or traders have the same perceptions; therefore, the willingness of end consumers to pay, known as the buying price, is not always fully transmitted along the supply chain.

Smallholder groups need several years of preparation to meet RSPO principles and criteria. This includes identification and assessment, training and document preparation. Afterwards, the assessor will continue with pre-assessment, corrective actions, first audit and annual costs. The total cost is estimated to be around US$8–51 per ha, which includes initial and annual certification costs. The certificate is valid for five years; therefore, smallholders need to renew the certificate three to four times during the entire oil palm tree cycle (WWF 2012). There is no guarantee that these extra costs will be covered by premium CSPO prices. In 2018 only 53% of all certified palm oil production was absorbed in global markets; i.e., traded with premium prices, which range from US$1 to 6 per tonne (RSPO 2019b). This means that the unabsorbed certified oil and CSPO that are sold without a premium could not cover their extra certification costs.

Improving smallholder inclusiveness

Smallholder inclusiveness could be improved in two ways. It could be improved internally by addressing the limitations of smallholders. It could be improved externally by improving the participation of other stakeholders. Oil palm smallholders range widely in their ownership, skills, knowledge and interest. The main weakness for smallholders is their lack of basic capacity. For example, certification requires records of and documents on all of the principles and criteria. However, most smallholders do not record their activities, so they cannot be certified even if they have implemented sustainable practices. Also, smallholders on average have a small amount of land, which is far below what is economically optimal. Therefore, they need to improve their collective actions, yet most of them are not adequately organized. Smallholders also lack individual knowledge and skills. To address this, they receive considerable assistance from partner companies. This study shows that partnerships can improve smallholders’ efficiency and income, and their inclusivity in the value chain. However, partnerships could also reduce the participation of smallholders and increase their dependency, unless they receive technical and managerial training. To address all of these issues, smallholders must be trained in technical and managerial aspects, networking along the supply chain, and preparing contracts with partners. Oil palm is a long-term business, and good contracts are crucial in improving risk management for smallholders.
References


