

# RSPO Smallholder Support Fund (RSSF) **Governance Policy**

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This is the Fund Governance Policy of RSPO Smallholder Support Fund. The policy was endorsed by the RSPO Board of Governors on 25 April 2013.

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Prepared by	:	Julia Majail, Perpetua George
Checked by	:	Petra Meekers, Marieke Leegwater, Salahudin Yaacob, Patrick Chia, Imam El Marzuq
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## Abbreviation

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CSP0	Certified sustainable palm oil
BOG	Board of Governors
RSPO	Roundtable on Sustainable Palm Oil
RSSF	RSPO Smallholder Support Fund
SFP	Smallholder Fund Panel
SFS	Smallholder Fund Support
SHWG	Smallholder Working Group
SPO	Sustainable Palm oil

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## Definition

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Following the recommendations of the RSPO's Task Force on Smallholders and the RSPO Certification Working Group, RSPO documents make a distinction between what have been variously called 'tied', 'associated' or 'scheme' smallholders, on the one hand, and 'independent' smallholders, on the other. After careful deliberations and comparison of national situations, the Task Force on Smallholders Steering Group agreed that the most appropriate terms are 'scheme' and 'independent' smallholders.

### **Definition of smallholders:**

*[Definition from: RSPO Principles and Criteria for Sustainable Palm Oil Production – October 2007].*

Farmers growing oil palm, sometimes along with subsistence production of other crops, where the family provides the majority of labour and the farm provides the principal source of income, and where the planted area of oil palm is usually below 50 hectares in size.

### **Scheme smallholders:**

*[Definition from: RSPO Principles and Criteria for Sustainable Palm Oil Production: Guidance on Scheme Smallholders – July 2009].*

Scheme smallholders, while very diverse, are characterized as smallholders who are structurally bound by contract, by a credit agreement or by planning to a particular mill. Scheme smallholders are often not free to choose which crop they develop, are supervised in their planting and crop management techniques, and are often organized, supervised or directly managed by the managers of the mill, estate or scheme to which they are structurally linked.

### **Independent smallholders:**

*[Definition from: RSPO Principles and Criteria for Sustainable Palm Oil Production: Guidance on Scheme Smallholders – July 2009].*

Independent smallholders, while very varied in their situations, are characterized by their: freedom to choose how to use their lands, which crops to plant and how to manage them; being self-organized, self-managed and self-financed; and by not being contractually bound to any particular mill or any particular association. They may, however, receive support or extension services from government agencies.

The distinction between 'scheme smallholders' and 'independent smallholders' is not always easy to make. The Task Force on Smallholders recognises that national interpretation working groups will need to look in detail at how this distinction applies in their country and provide comprehensive lists of which types of smallholders best fit which category. Where an endorsed National Interpretation includes a definition for smallholders, this will also be recognized.

### **Associated Smallholders:**

There is no finalized generic definition on Associated Smallholders. For the purpose of this document, we will use the definition as per in the PNG NI which read as:

“Associated Smallholders’, who share some of the characteristics of independent smallholders, notably in terms of land use and management decisions, and yet are closely linked to particular mills for marketing and extension”.

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## 1. Introduction

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- a. The RSPO Board of Governors has approved the formation of the RSPO Smallholder Support Fund and seeks to maintain the highest standards of fund governance and control.
- b. The purpose of this document is to:
  - i. outline the process of fund governance for the RSPO Smallholder Fund; and
  - ii. provide a description of the structures in place to ensure a high level of oversight.
- c. A good governance policy for the fund therefore is required to provide strong control mechanisms that encourage good decision-making, accurate and timely execution of decisions, clear and effective accountability, regular review and assessment of governance policies and procedures and transparency.

### 1.1 RSPO Smallholder Support Fund

- a. The RSPO Smallholder Support Fund is a fund that was created by RSPO to support the oil palm smallholders, which was approved by the RSPO Board of Governors on the 29<sup>th</sup> Oct 2012, during its meeting in Singapore.
- b. RSPO Board of Governors has made a decision to set aside 10% of the revenues generated through the sales of CSPO plus 50% of any remaining surplus after tax each financial year, dedicated to support smallholders to be RSPO certified. The amount is predicted to increase in line with the anticipated overall increase of the total sales of CSPO.

### 1.2 Fund Strategy

- a. The RSPO Smallholder Support Fund (“the Fund”) is part of the RSPO overall funds, but is separately identified within those funds as distinct from for example the Membership Fund.
- b. The Fund is intended to facilitate the inclusion of smallholders within RSPO certification, specifically:
  - a. Focus on direct assistance for Oil Palm producing smallholders to attain RSPO certification. The beneficiaries are smallholders in the Oil Palm Sector, and the applicants of the fund can be Group Managers of independent smallholders and other supporting agencies.
  - b. Provide assistance to the development of certification systems, tools, and other related mechanisms, to enable facilitation or simplification of RSPO certification for smallholders. The beneficiaries and applicants will be RSPO Working Groups, Task Forces, or other initiatives recognized by the RSPO.
- c. The fund strategy shall be reviewed every 2 years after its initial implementation.

### 1.3 Fund Objectives

- a. The direct objectives are to:
  - i. facilitate access to RSPO certification for independent oil palm producing smallholders

- ii. create an enabling atmosphere within the RSPO Certification framework, that is consistent with smallholder needs and scenarios
  - iii. improve sustainable production practices of independent oil palm producing smallholders
  - iv. create a “ready for micro investment” portfolio of RSPO certified groups of independent smallholders
  - v. ultimately to promote the increase production of RSPO certified sustainable palm oil
- b. The (social) mission of the fund is by definition to ensure that independent smallholders improve their livelihoods by benefiting from RSPO standards and best practices. Environmental, economic and social impacts are intrinsic aspects of RSPO certification.
  - c. Long-term, the fund could include financing investments in yield improvements (e.g. fertilizer input or replanting). The scope might be broadened including scheme smallholders and associated smallholders and yield improvement investments, not only from a social impact perspective, but from a risk perspective as well.
  - d. The fund objectives shall be reviewed after 2 years of its implementation.

#### 1.4 Fund Focus

- a. The size (investment need) of the different projects in the pipeline will differ depending on the size (like number of farmers included), the complexity (e.g. organized versus non-organized) and the scope (complete certification process or just a part of it).
- b. Because the fund starts small, grant sizes will be limited. Therefore, initial prioritization of projects are those that are close to achieving certification (quick-wins) and can become a success story that will inspire others to follow. In addition to these ‘quick-wins’, the fund will also support some projects in the early stage of a certification process i.e. that focus on early stages of training and group formation; such project applications are allowed to have an initial focus on promoting sustainable production practices, while certification itself is only considered as a mid-term goal out of the scope of the funding proposal.
- c. There is also a need to identify areas in the RSPO Certification structure that can be made more accessible or easy for smallholders. For example, development of smallholder specific tools to help with compliance to RSPO certification. Where there is a clear benefit for smallholder certification, the Fund can contribute to this.
- d. In the fund application process there should be sufficient checks and balances in order to mitigate the reputational risks of such projects when there is limited knowledge about its history and reliability. This is secured through the processes as described in Chapters 2-6 of this document.
- e. The fund focus shall be reviewed every 2 years.

#### 1.5 Fund Size and Deal Size

- a. The Fund can consider granting 100% of the audit costs of all potential certification processes of independent smallholder groups; with option to include one surveillance audit for each applicant. Funds can also be granted to projects where the only component of the project is certification audits (i.e. only audit costs are involved).
- b. The Fund may consider to give grants with sufficient co-funding to activities that contribute to preparing for certification such as paying for training in Better Management Practices, building a shed for the storage of pesticides, starting the build-

- up of a documented system, financial literacy training of one or more potential group managers.
- c. The maximum funding per project that can be awarded from the Fund is USD100,000.00 per year. Subject to recommendation made by the SFP and after considering the status/ balance of fund, higher budgets can be granted, provided applicants have a proven track record in implementing smallholder projects.
  - d. It is strongly advise to commit budgets for 1 year, with possible extension if sufficient progress is achieved and to give preference to projects with co-funding (in cash) that will leverage the impact of the relatively small size of the fund as follow:
    - o 100% of certification audit costs
    - o At least 40% of other initial costs with committed co-funding
    - o At least 40% of recurring costs with committed co-funding

Examples of initial & recurring costs:

Initial Costs	Recurring Costs
Awareness building	
RSPO membership costs	
Baseline studies related to certification & project improvements	
Organisation/ ICS	Organisation/ ICS
Farmer training (on Good Agricultural Practices and other RSPO relevant requirements)	Farmer training
HCV/ SEI Assessments	HCV / SEI Management & Monitoring
Corrective actions	Corrective actions
Pre-Certification audits	
Certification audits	Surveillance audits
Project Management	Project Management

- e. The above shall be reviewed every 2 years



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## 2. RSPO Smallholder Support Fund Management Body

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### 2.1 Introduction

- a. The RSPO Smallholder Support Fund Management Body shall involve:
  - i. Smallholder Fund Panel
  - ii. RSPO Smallholder Support Fund Manager
- b. The primary goal of RSPO Smallholder Support Fund Management Body is to operationalize the Fund in the interests of oil palm smallholders, globally, in order to promote the increase production of certified sustainable Palm Oil.
- c. The Smallholder Fund Panel shall report progress and specific project approval and monitoring to the Smallholder Working Group and the RSPO Board of Governors.

### 2.2 RSPO Board of Governors (BOG)

- a. The BOG is responsible for RSPO policies and strategy and as such shall approve any changes to this Governance Policy.
- b. The BOG shall be updated with the progress of the fund in supporting smallholders i.e. in promoting the increase production of certified sustainable palm oil by smallholders globally.

### 2.3 Smallholder Working Group (SHWG)

- a. The SHWG is a working group set up under the Standard and Certification Standing Committee of the RSPO Board.

### 2.4 The Smallholder Fund Panel (SFP)

- a. The SFP is formed as a panel to approve project investment decisions and monitor progress and implementation of this Governance Policy; and the Panel will be working closely with the Smallholder Fund Manager. This includes the possibility of setting aside a specific proportion of the overall Fund for specific project commissioned by the Panel.
- b. Membership of the Panel will be elected as per described under the Item 3.2.1(a) of this document, as follow:
  - Member of SHWG - 3 including the Chairman (of the SFP) position
  - RSPO Secretariat - 2

### 2.5 Smallholder Fund Manager

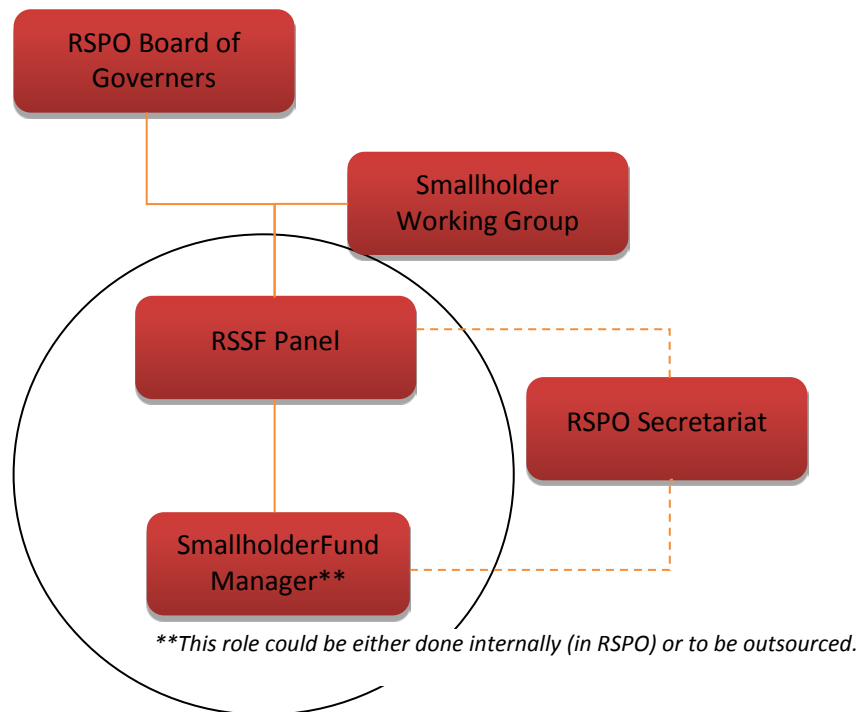
- a. The Smallholder Fund Manager is staff of the RSPO Secretariat, and works in collaboration with the SFP.
- b. The Fund Manager is responsible for managing the Fund in accordance with the strategic objectives and policies that have been endorsed by the RSPO.
- c. The role of the Fund Manager is as follows:
  - i. Initial development of the RSSF systems and protocol, including documentation
  - ii. Review and assess all applications received for funding by the RSSF, and provide recommendations for approvals from the SFP.
  - iii. The Fund Manager has the mandate to approve projects on behalf of the SFP for applications where funding is only requested for certification audit costs, within the

stipulated limit as set by the RSSF Guidance for Assessment document and as agreed by the SFP.

- iv. The fund manager ensures the RSPO Secretariat reports to the SFP on the performance of the Fund.
- v. The fund manager will communicate and ensure adherence to RSPO’s mission, acting as the main representative for the Fund, and preparing communication updates and promoting the Fund.
- vi. Recommending to SFP and/or RSPO Secretariat the appointment of key service providers, when there is need relevant to the RSSF, and ensuring appropriate written agreements are in place with all services providers.

**Flowchart Governance of Smallholder Fund**

a. The flowchart governance of the Smallholder Fund is as follow:



Circle = Smallholder Fund Management Body

**2.5.1 Reporting**

- a. On an annual basis, the SFP must confirm and report to the SHWG and BOG that they have acted within their approved terms of reference including delegations.

## 3. Structure of the Smallholder Fund Panel (SFP)

### 3.1 Panel Composition

- a. The SFP shall comprise members not less than the following:

Representatives from the SHWG	3 person
Representatives from RSPO Secretariat	2 person
<b>TOTAL</b>	<b>5 pax</b>

- b. The SFP shall meet 4 times a year. A report must be prepared by the Panel to the SHWG and BOG every 6 months.
- c. The SFP will evaluate on the funding proposals that have been reviewed and appraised by the Smallholder Fund Manager.
- d. The SFP will set the Fund strategy annually, and this includes any portioning funds for identified specific needs.
- e. The SFP will need to make decision on approval of funding based on recommendations by the Fund Manager at each SFP meeting.
- f. The SFP must be sure not to enter in a conflict of interest. SFP members must declare any conflict of interest prior to the discussion of each proposal. Where conflict of interest has been declared the SFP member shall not be involved in any deliberation or decision making for that particular proposal.
- g. The SFP members' attendances to meeting are monitored and recorded by the Smallholder Fund Manager. All meetings must have a full quorum, which can include attendance via electronic communications.
- h. The decision by the Panel shall be based on consensus.

### 3.2 Members in the Panel

#### 3.2.1 Selection of Smallholder Fund Panel Member

- a. Representatives from the SHWG
- i. The Co-Leaders of SHWG can nominate and appoint the Chairperson and members of the SFP for an agreed term. Selection shall be based on the members' practical background and experts.
  - ii. Secretariat will notify the members and upon agreement to accept the role, Secretariat shall announce this to the rest of the SHWG members.
- b. Representatives from the RSPO Secretariat
- i. Beside the members of SHWG, the Panel will also include the RSPO Technical Director and/or his/her alternate and the RSPO Finance Director and/or his/her alternate.

#### 3.2.2 Responsibility of the Smallholder Fund Panel

- a. The Terms of Reference sets out the SFP's responsibilities and powers. These include to act legally, responsibly and ethically on all matters including:

- i. approving RSPO Smallholder Support Fund strategic plan
- ii. delegation of operational and financial responsibilities to Smallholder Fund Manager
- iii. approving and monitoring:
  1. all investment proposal;
  2. all major capital expenditure and the annual budget;
  3. investment plans, objectives and performance of the Fund; and
  4. key compliance systems in place to manage risks, controls and code of conduct.
- b. SFP will receive notification from the Board of Governors, in October of the year, on available budget for the Fund for the financial year which starts from January – December.
- c. SFP shall report to the Board of Governors bi-annually (June and December) on the progress of the fund as well as recommendation for decision as deem necessary.

### **3.3 Smallholder Fund Panel Policy**

- a. Members of the Panel shall ensure adherence of the following policies and procedures:
  - i. Conflict of Interest Policy
  - ii. Code of Conduct Policy

#### **3.3.1. Conflict of Interest Policy**

- a. Members of the Panel are required to be well informed about the management of the Fund's investments, administration and compliance responsibilities, to avoid conflicts of interests and to comply with the RSPO Code of Conduct.
- b. Panel members are required to disclose at the beginning of every Smallholder Fund Panel meeting all interests or circumstances that may give rise to an actual or potential conflict of interest as well as to complete separate annual declarations.

#### **3.3.2. Code of Conduct**

- a. Members of the Panel are required to be well informed about the management of the Fund's investments, administration and compliance responsibilities, to avoid conflicts of interests and to comply with the RSPO Code of Conduct.

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## 4. Investment Process

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### 4.1 Criteria for eligibility

- a. The criteria for fund eligibility consists of the following requirements:
  - i. The applicant should be a legal based organization, either a group manager or supporting agency (private or non-profit) and not be involved in illegal practices or land right conflicts.
  - ii. The applicant has sufficient experience or knowledge in working with smallholders and/or in the oil palm sector, or be an independent smallholder, OR be an RSPO Working Group, Task Force, or an RSPO recognized initiative
  - iii. The project should concern activities which are directly related to obtaining RSPO certification and the promotion of sustainable production practices of independent smallholders, OR will facilitate and simplify the RSPO certification process for smallholders
  - iv. The project has a maximum duration of three years with clear milestones set after the first year (when projects are performing well, the funding for the second year will be released). The SFP may consider exceptional projects of more than three years on a case by case basis.
  - v. The project will correspond to the co-funding criteria as per described under Item 1.5(d) of this document.
- b. A condition to receive grants is that project should share results; lessons learned and developed training/guidance material with the Smallholder Working Group and beyond.
- c. The fund eligibility criteria could be reviewed, added and/or amended as deem necessary by the SFP.

## 5. Application procedure

### 5.1 Process

- a. The application procedure describes the steps of the investment process more in detail. The procedure should at least describe the following steps:
  - i. Proposals management: shortlist the proposal application and identify promising projects to support. This will be a continuous process without calls for proposals. Application must be using the application template format provided by RSPO.
  - ii. Support application processes of applicants (which includes assisting applicants in writing proposals), assessment and negotiation
  - iii. Approval of proposals by Smallholder Fund Panel (every 3 months during the first year(s) and then every 6 months, or as needed)
  - iv. Contracting
  - v. Monitoring (including field visits for selection of projects)

**Table 1: Steps of application procedure**

STEPS	What	Who	Duration	Remarks
1	Submission of application proposal	Smallholders/ Group Manager	Continuous process	
2	Review & assessment of application proposal	Smallholder Fund Manager	4 weeks	
3	Review for endorsement	SH Fund Panel	1 day	4 times a year (Feb, May, Aug, Nov)
4	Announcement of decision to applicants	Fund Manager	1 week	Note: Unsuccessful applicant(s) can resubmit proposal and will be treated as a new application.
5	Contracting	Fund Manager/ RSPO Secretariat	4 weeks	
6	Progress and impact reporting	SH/Group Manager	Annually	

### 5.2 Creating a pipeline or deal flow

- a. The SHWG should play an important role in creating the deal flow, but members must be sure not to enter in a conflict of interest. A communication strategy is needed to support this.
- b. The Fund Manager will actively engage the SHWG to seek for projects.

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## 6. Financial Integrity

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- a. The RSPO Secretariat, and in particular the Finance Director, responsible for the preparation and fair presentation of the annual audited financial statements of the RSPO, including the Smallholder Fund, in accordance with legal/law requirements.
- b. Their responsibility includes establishing and maintaining internal controls relevant to the preparation of the financial statements that are free from material mis-statement, whether due to fraud or error and making accounting estimates that are reasonable.

### 6.1 Financial Reporting

- a. The RSPO Secretariat (Finance Department) shall prepare financial reporting for the Fund. Annual and quarterly financial reports are prepared for SFP which in turn will report to the Board of Governors.
- b. Expenditure is monitored by the RSPO Secretariat (Finance Department) throughout the year.
- c. SFP shall prepare an annual budget for consideration to the Board of Governors.

### 6.2 Awarding Funding Support

- a. On behalf of RSPO Secretariat, the Fund Manager, will enter into contracts and investment transactions with a party only where there is evidence that:
  - i. Proposal has complied with the application procedures required
  - ii. Proposal has gone through the review and selection procedures required
  - iii. Proposal has been approved by the SPF.
- b. When RSPO have invested in or contracted with a related party, it must be ensured that the:
  - i. investment or contract with that entity is made in the best interests and aspiration of smallholders and RSPO in general
  - ii. appointment of the service provider or the investment in the related entity is at fair market price
  - iii. benefits of the services provided are periodically assessed
  - iv. right of RSPO to pursue its interests in the normal course of business is fully protected

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## 7. Communication

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### 7.1 Communication

- a. Most important standard forms are:
  - i. Communication material
  - ii. Application form, monitoring forms and guidance documentation
  - iii. Standard contracts
  - iv. Standard approval letter



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## 8. Monitoring and Evaluation

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### 8.1 Monitoring and Evaluation

- a. Responsibility to monitor and evaluate the project funded under RSSF and its impacts will be done by Fund Manager, together with the SFP.
- b. A standard format to use for monitoring and evaluating performance and impact will be developed and used.
- c. Successful applicants are expected to provide a mid-term Progress Report and an annual Project Progress & Impact Reports.
- d. Evaluation by external party may also be required on case to case basis.
- e. SFP may request the funded project to submit an audited financial statement to RSPO, on case to case basis.

#### 8.1.1 Frequency of monitoring and evaluation

- a. Monitoring and evaluation of the project funded under RSSF shall be conducted as the following:
  1. Quarterly report on status pipeline (applications)
  2. 6 monthly and annual impact report on performance of portfolio
  3. 6 monthly report on financials of the fund
- b. Where need be, field visits will be one of the way to do monitoring.