

Smallholders and Certification (study case: Sumatra, Indonesia)

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Background

- In Indonesia, smallholdings contribute 38.30% of the total oil palm plantation (3,078,000 ha) (Directorate General of Plantation, Indonesia, 2010), but only 35.240 ha (1.14%) with 17.500 smallholders has been certified.
- Why?

Methods

- Study locations:
 - North Sumatra
 - Labuhan Batu, Labuhan Batu Utara, Labuhan Batu Selatan, Asahan, Simalungun, Batubara
 - Riau:
 - Pelelawan
 - Jambi
 - Tanjung Jabung Barat

- Survey Time
 - 2012 and 2013
- Samples
 - 553 smallholders
 - Various smallholders' organization
 - No organization
 - Association
 - Cooperation
 - Sole proprietorship
 - Limited partnership
 - Various stage of RSPO certification
 - Have not been socialized
 - Initial stage
 - Middle stage
 - Certified

- Analysis method:
 - Descriptive with scoring the ratio between smallholders' existing condition and RSPO P and C
Range of score: 1 to 5 (minimum to maximum suitability)
 - Multinomial Logit Model to estimate influencing factors of the ratio
 - Descriptive with ratio scale to measure the smallholders' Willingness To Pay (WTP) expenses related to the implementation of RSPO P and C
 - Binomial Logit Model to estimate influencing factors of the WTP

Smallholders' characteristics (n=533)

Description	Unit	L. Batu, Asahan (North Sumatra) N = 303		Pelelawan (Riau) N = 62		Simalungun (North Sumatra) N = 81		Tjg Jabung Barat (Jambi) N = 87	
		Range	Average	Range	Average	Range	Average	Range	Average
Age	years	24 - 77	46	21 - 64	44	25 - 79	49	27 - 77	47
Education	years	6 - 17	9	0 - 12	7	0 - 15	7	0 - 17	7
Experience	years	1 - 40	15	7 - 55	20	4 - 24	13	3 - 27	15
Land Area	ha	0,1 - 26	2,8	2 - 6	2	0.7- 85	11.19	0,89 - 28	3,99
Income/ month	Rp million	0,15 - 60	3,61	N/A	N/A	N/A	N/A	0,69 - 22	2,74
Crop age	years	0 -32	15	8 - 20	14	N/A	N/A	2 - 22	17
Productivity	ton/ha/year		17		18		22.6		10.6

Description	Unit	L. Batu, Asahan (North Sumatra)	Pelelawan (Riau)	Simalungun, (North Sumatra)	Tjg. Jabung Barat (Jambi)
Certified seeds	%	28.78	99,64	0	100
Ex-schemed	%	25.74	72,58	0	82,86
Participation in groups	%	71,31	100	100	24.29
Records	%	0	0	0	0

Findings

- **Finding 1**

- The average score of ratio between smallholders' existing condition and RSPO P and C : two (2), indicating that on average smallholders still have not been able to meet the RSPO P and C

Reasons for the low score

- Inadequate managerial skills:
 - Process of certification is new for most group managers
 - Group managers average level of education : junior high school
 - Lack of records and documents
 - Lack of good smallholders' organization

- Some of the documents are complicated and or costly
 - Maps of smallholdings, type of land
 - Social and environmental impact assessment
 - Water quality
 - Soil survey and topographic information

- Some documents need to be supported by smallholders' record

Reason for smallholders not having records and documents:

- Routine and fixed (documents of productivity, fertilizer and pesticides application, labor payment)
- No written guidance/ forms (GAP manual, safety work)
- Not necessary recorded (communication, negotiation)
- Not yet done (observation pests and disease, planning)



Recommendation

- a) RSPO provide manual procedures and forms, in addition to guidance for group managers and schemed managers
- b) Trainings for preparing the forms
- c) Having experience assistance at the initial stage (for accelerating the process and for providing “learning by doing” process)

• Finding 2

Lack of meeting best practices:

- 1) Too complicated (environmental and social impact assessment, pollution identification, soil and topography survey)
- 2) Lack of funds (replanting, complete fertilizer)
- 3) Lack of time and labor (chemical container waste treatment)





- Existing condition that meet the requirements:
 - (1) Not using fire
 - (2) Not planting on steep area
 - (3) Not using child labor
 - (4) Contribution to local development
 - (5) Compensation of land right acquisition



Recommendation

(a) Handle the activities within a group

For example: Pest Management → handled by the group but participate by smallholders for transmitting knowledge and skill (trainings and practice in the field)

(b) Utilize Internal Assessment

- From 77 indicators (major and minor), only 14 (18%) directly related to smallholders
- Focusing on the 14 indicators could lead to continuous improvement; Focus on specific areas one at a time
- Each progress will be rewarded with higher price (spread the uncertainty of P and C implementation expenditure and premium price between producers and consumers)

- CSPO market performance (RSPO, 2013)

	Sales/supply	B&C/sales
2011	51.9 %	67 %
2012	51.7 %	72 %

Increase in productivity and decrease in cost of production are some impacts for implementing best practice in RSPO, but higher/premium price is needed for covering the extra time, labor and fund to prepare other things (documents, trainings)

• Finding 3

- RSPO Certification needs extra costs
- Initial certification and trainings are mostly covered by donors
- Smallholders covered some of corrective actions
- Smallholders still find difficulties to cover the ongoing certification and maintenance

Components of WTP

- Marketing costs : sales price cut
- Infrastructure: smallholders' plantation lane maintenance
- Cost for pesticides spraying
- Saving for replanting

Average Cost of Group Certification (US\$)

Description	Average cost (US\$/ha)
Initial certification + necessary staffing	2.13-3.54
Training of staff and smallholders	0.09-23.10
Corrective actions typically	3.74-10.99
Ongoing certification and maintenance	2.43-13.03

WWF Report, 2012

- WTP varies among smallholders with various stage of certification
 - Smallholders with no knowledge of certification:
 - WTP = 0
 - Smallholders in the preparation of certification:
 - $\text{Rp}54,000/\text{SH}/\text{month} \leq \text{WTP} \leq \text{Rp}842,000/\text{SH}/\text{month}$
($\text{US}\$5.4/\text{SH}/\text{month} \leq \text{WTP} \leq \text{US}\$84/\text{SH}/\text{month}$)
 - Average WTP (without outlier values):
Rp241,471/SH/month (US\$24/SH/month)
 - Smallholders that have received certification:
 - $\text{Rp}120,227/\text{SH}/\text{month} \leq \text{WTP} \leq \text{Rp}401,427/\text{SH}/\text{month}$
($\text{US}\$12/\text{SH}/\text{month} \leq \text{WTP} \leq \text{US}\$40/\text{SH}/\text{month}$)
 - Average WTP (without outlier values):
Rp260,827/SH/month (US\$26/SH/month)

- Average WTP: Rp255.294,-/SH/month (US\$26/SH/month)
- With an average of land area of 2.91 ha, the average **WTP** Rp87,757/ha/month (**US\$8.8/ha/month**)
- According to WWF estimation, the average WTP can cover the some corrective actions, which range from US\$3.74/ha-US\$10.99/ha.

WTP Influencing Factors

- Sales Continuity
- Increasing in Production
- Participate in Best Practice Trainings
- Length of aware of RSPO

Conclusion

- 1) On average there are gaps between smallholders' existing condition and RSPO P and C
- 2) Many smallholders have not aware of RSPO
- 3) Smallholders that have enjoy the benefit of RSPO have higher WTP for certification

THANK YOU

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