



Definitions of smallholders and proposal on adapting the group certification system in Honduras

Adoption of the international RSPO criteria as the national
interpretation of Honduras

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1. Introduction

This paper sets out proposed definitions of smallholders for RSPO certification in Honduras and presents a proposal for adapting the RSPO group certification system to the context of Honduras. The paper was developed by Proforest and the Honduran Technical Committee as part of the *Adoption of International Criteria of the RSPO as the National Interpretation of Honduras* (following the *RSPO Certification Systems Annex 1a: Procedure for Endorsement of the International Generic Criteria as a National Interpretation in small producing countries*).

Because most palm oil production takes place in Southeast Asia, which is also where RSPO originated, definitions of RSPO smallholders are not well adapted to the Honduran context. Accordingly, as part of the interpretation process and in compliance with the requirements of RSPO, it was considered important to propose definitions of smallholders for the particular context of RSPO certification in Honduras.

Given the very specific and complex structure of the palm oil sector in Honduras, there are a number of issues that make the application of the RSPO group certification challenging in Honduras. Consequently, it was decided to develop a proposal for the application of group certification to the different categories of oil palm growers in Honduras.

The present document includes:

- (a) Current RSPO definitions of smallholders and the revised definitions proposed by the (Honduran) Technical Committee, which better suit the Honduran context. Comments on these proposed definitions are being sought during the public consultation on the national interpretation document for Honduras (July–August 2013);
- (b) Current RSPO certification models for smallholders, the challenges posed in applying existing models in Honduras and a proposal for the adaptation of RSPO's group certification system to the specific context of Honduras. This proposal is being submitted to the RSPO Task Force on Smallholders and the RSPO Secretariat.

2. Definitions of smallholders for RSPO certification

One of the requirements of the National Interpretation process for Smallholder Countries is that the RSPO *applicable guidance for smallholders is also adopted*.¹ RSPO documents distinguish between two types of smallholders: those referred to as “**scheme smallholders**” and those referred to as “**independent smallholders**”. The *Guidance for Independent Smallholders under Group Certification* states:

The distinction between ‘scheme smallholders’ and ‘independent smallholders’ is not always easy to make. 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. At its meeting on 21st-23rd February 2010, the Steering Group of the RSPO Task Force on Smallholders reaffirmed its recommendation to the RSPO Executive Board that the Board needs to allow for flexibility in the way this distinction is

¹ Annex 1A of the RSPO Certification Systems, 2.3

applied in national interpretations to ensure that the typology does not exclude or disadvantage smallholders in some countries. Particular attention was drawn to the situations in Papua New Guinea and Thailand, which differ markedly from Indonesia and Malaysia, and thought was given to the need for the same flexibility in the application of smallholder definitions to other countries as they join the RSPO process.

In the light of the above guidance from RSPO the following section sets out the current RSPO definitions of smallholders and the definitions proposed by the Technical Committee for the context of Honduras.

2.1. RSPO definitions of smallholders

2.1.1. Definition of smallholders

RSPO defines smallholders as:

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.

RSPO documents distinguish between two types of smallholders: scheme smallholders and independent smallholders.

2.1.2. Definition of scheme smallholders

RSPO defines scheme smallholders as:

Scheme smallholders, while also very diverse, are characterised 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 organised, supervised or directly managed by the managers of the mill, estate or scheme to which they are structurally linked.

2.1.3. Definition of independent smallholders

RSPO defines independent smallholders as:

independent smallholders while very varied in their situations are characterised by their: freedom to choose how to use their lands, which crops to plant and how to manage them; being self-organised, 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.

2.2. Definitions of smallholders in the context of RSPO certification in Honduras

The Honduran National Interpretation Technical Committee has drawn attention to the need for several adjustments to the RSPO definitions of smallholder categories to make them appropriate to the context of Honduras.

2.2.1. Definition of smallholders

- Since many smallholders in Honduras manage land held under a communal title (as part of 'social sector' enterprises²), the Committee considered it important to stress that, where communal titles are concerned, it is the number of hectares per member of the communal scheme which is taken into account.
- The Committee also stressed that the definition should reference the Honduran legal definitions of small and medium-scale producers.

The Committee proposes the following definition of smallholders for RSPO certification in Honduras:

Farmers growing oil palm, sometimes along with subsistence production of other crops, where the family provides some of the labour, the farm provides the principal source of income and the planted area of oil palm is below 50 hectares in size. In the case of Honduras, this definition includes producers considered by law to be small producers (1–10 hectares) and medium-scale producers (11–50 hectares). Where land held under communal title is concerned, it is the number of hectares per member of the communal scheme that is taken into consideration.

2.2.2. Definition of scheme smallholders

The Technical Committee also identified several discrepancies between the scheme smallholder model in Honduras and the current RSPO definition.

- In Honduras, smallholders are always free to choose which crops to grow and sometimes receive technical assistance in planting and crop management. Only very occasionally are they organised, supervised or directly managed by the managers of the mills with which they have a contractual relationship.

Accordingly, the Technical Committee proposes the following definition for scheme smallholders:

Scheme smallholders, while very diverse, are characterised as smallholders who are structurally bound by contract to a particular mill. Scheme smallholders often receive technical assistance in planting and crop management. They are occasionally organised, supervised or directly managed by the managers of the enterprise with which they have a contractual relationship.

2.2.3. Definition of independent smallholders

The Committee did not see any need for changes to the definition of independent smallholders. Accordingly, the current RSPO definition shall apply:

² Translation note: 'the social sector of the economy' (SSE) in Honduras is a legally defined grouping of businesses and workers organizations which share common tenants (including the use of profits to improve the lives of members), and principles (freedom, economic democracy, justice, solidarity, autonomy, participation, pluralism). They include Cooperative Associations and Farmer Enterprise Associations

Independent smallholders while very varied in their situations are characterised by their: freedom to choose how to use their lands, which crops to plant and how to manage them; being self-organised, 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.

3. Proposal to adapt group certification to the context of Honduras

3.1. RSPO certification models for smallholders

RSPO recognises that certification can be difficult for smallholders, and that compliance and the need to submit evidence of such compliance, together with the costs of audits, may significantly impede their access to sustainable palm oil markets. For this reason, RSPO set up its Task Force on Smallholders. Part of the Task Force's mandate is:

(...)to ascertain the suitability of the RSPO Principles and Criteria for smallholders and make proposals on how best these can be adjusted, nationally and/or generically, to ensure favourable smallholder involvement in sustainable palm oil production.

The Task Force on Smallholders has developed two sets of guidance for smallholder certification: the *RSPO Guidance for Scheme Smallholders*, and the *RSPO Guidance for Independent Smallholders under Group Certification*. The overarching aim of these two documents is to provide a fair and viable means whereby smallholders can achieve certification of their products, so that they are not unfairly excluded from the emerging market of RSPO-certified palm oil.

The Task Force also instigated the development of a *Group Certification Standard* to enable independent smallholders to share the costs of certification and obtain group certification. For now, RSPO only permits group certification for *independent smallholders* (see the definition in paragraph 2.1), but the *RSPO Standard for Group Certification* states that RSPO may, at a later stage, permit larger producers (> 50 hectares) to be certified via group certification.

For companies operating mills, the certification model to be followed is the certification of the mill and its supply base. According to the document *RSPO Certification Systems* (4.2.3):

The unit of certification shall be the mill and its supply base:

- *The unit of certification must include both directly managed land (or estates) and associated smallholders and outgrowers, where estates have been legally established with proportions of lands allocated to each.*
- *All the FFB from the directly managed lands (or estates) shall be produced to certifiable standards. The mill will develop and implement a plan to ensure that 100% of associated smallholders and outgrowers are of certifiable standard within 3 years.*

Where a company with a mill has a contractual relationship with *scheme smallholders* (see the definition in paragraph 2.1), these scheme smallholders must be certified with the company in accordance with the *RSPO Guidance for Scheme Smallholders*. According to the *RSPO Guidance for Scheme Smallholders*:

- *Scheme smallholders must be certified together with the mill with which they are associated,*

- *Independent smallholders*, who may sell their fresh fruit bunches either directly or through intermediaries to a number of mills, must be certified independently of the mills, in accordance with the *Group Certification Standard* and the *Guidance for Independent Smallholders under Group Certification*.

Table 1 below sets out the production models currently covered by RSPO procedures, the possible certification models, and the standards and guidance documents, which must be followed for the purposes of certification.

Table 1. Production models, certification models and RSPO certification standards and guidance

| Production model | Certification model | Standards and guidance documents to be followed |
|--------------------------|--|---|
| Companies with mills | Individual certification | RSPO P&C and Chain of Custody Standard |
| Scheme smallholders | Joint certificate with the mill as part of its supply base | RSPO P&C, RSPO Guidance for Scheme Smallholders |
| Independent smallholders | Individual certification | RSPO P&C |
| | Group certification | RSPO P&C, Guidance for Independent Smallholders under Group Certification, Standard for Group Certification |

3.2. Palm oil sector production models in Honduras

The palm oil sector in Honduras is complex, comprising different types of large and small-scale producers, producer groups and private companies.³ The main types of producers in Honduras are described in table 2 below.

Table 2: Categories of palm oil producers in Honduras

| | 'Social-Sector' enterprises | Individual producers | Private sector enterprises |
|-------------------|--|--|---|
| Definition | These are socially-oriented goods and services producers. ensuring financial profitability, and serving the social and environmental benefit of their members and the community. These companies choose community land ownership and production methods. This concept covers: | These are individual (also referred to as independent) producers who hold individual titles to land. Their plantations are managed by individuals and not by a company. These producers may sell their produce (Fresh Fruit Bunches) to different buyers by verbal agreement or formal contract. Individual producers have | Companies set up under the legal status of public incorporation and/or limited liability as provided by the Commercial Code of Honduras |

³ Further information may be found in the document *Production Models and the Structure of the Honduras Palm Oil Sector* (in Spanish), developed by Proforest with the support of the Technical Committee.

| | | | |
|---------------------------------|---|--|--|
| | <ul style="list-style-type: none"> • Associative Farm Enterprises • Agro-industrial Land Reform Cooperative Enterprises • Cooperatives – these include Cooperative Enterprises and Cooperative Associations (pursuant to article 3 of Social Sector Act) | formal and informal commercial relationships with the various Social Sector enterprises, private companies, producer associations and intermediaries. | |
| Organisational structure | Constituted by a general assembly comprising representatives of its constituent members, enterprises and/or cooperatives, a board of directors composed of representatives appointed by the general assembly, elected every two years with the option of re-election, and a general management, which, in turn, administers the operational structure of the company. | One person takes the decisions about the use of available resources and exercises management control over the operation of the farm. | <p>The make-up of a publicly held company includes its shareholders, the general assembly and the administrator.</p> <p>A limited liability company has up to 25 shareholders and management of the company is entrusted to one or more shareholders or other individuals.</p> |
| Example | Hondupalma is made up of 28 Associative Farm Enterprises and two cooperatives, with a total of 581 members. Its core business is the extracting, refining and processing of palm oil, derived from 8,280.54 hectares of plantations belonging to their members. member's | Individual farmers sell their FFB to Social Sector enterprises, the private sector and producer associations, via verbal agreements or formal contracts. | The private sector enterprises are Grupo Jaremar, Grupo Dinant, Aceydesa and Palcasa, all of which are constituted in the legal form of limited liability companies. |

3.3. Challenges faced by current certification models in the context of Honduras

As most palm oil production takes place in south-east Asia, which is also where RSPO originated, there are there are a number of issues in the application of the current RSPO certification models in Honduras. These issues are outlined in the following sections.

3.3.1. Certification of Social Sector Enterprises

Social Sector enterprises are groups of producers which manage one or several pieces of land held in communal title. This category includes both small groups (such as Associative Farm Enterprises and

cooperatives with between 5 and 30 members), and large groups (such as Agro-industrial Land Reform Cooperative Enterprises with 400–600 members).

It is important to note that organizations classed as Social Sector enterprises are mostly made up of smallholders in the sense that they collectively manage an average land area of between 1 and 30 hectares per farmer. This category also includes Agro-industrial Land Reform Cooperative Enterprises (ECARAs in Spanish), which are groups of mill-owning Social Sector enterprises. Given that these organizations have their own mills, RSPO does not regard them as *independent smallholders*, and they are not –currently - therefore entitled to group certification. Therefore, Agro-industrial Land Reform Cooperative Enterprises (ECARAs) should be certified either as normal plantation-owning companies or as *scheme smallholders*.

ECARAs are large and diverse bodies (with 400–600 members and 14–31 communally-owned landholdings which range in size from 66 to 569 hectares, each of which is managed separately by its members). Given the diversity of areas and the number of smallholders involved in these groups, it is likely that their certification as a single unit could pose an considerable obstacle for these enterprises. Requiring ECARAs to be certified just like any other large company could make the whole certification process very difficult for these groups, compared to large companies that directly manage their own production areas.

On the other hand, it would not seem to make sense to treat the cooperatives and community-based enterprises that make up ECARAs as *scheme smallholders* since they in fact represent the main supply base of the mill, rather than a minor set of small outgrowers. For example, in the case of the ECARA ‘Coapalma’ there is a directly owned mill (belonging to Coapalma) but the FFB are purchased from members plantations (and some independent out-growers): the organization itself does not own or manage any plantation areas directly.

Given the complexity of community enterprises, it is important to have clear rules defining these issues.

3.3.2. Certification of individual producers

Many Honduran producers fall in the category of individual producers (see table 2), who are producers holding individual land title which they manage themselves. Although there are no precise figures, it is estimated that the vast majority of individual producers cultivate pieces of land smaller than 50 hectares. Individual producers have formal and informal trade relationships with the various Social Sector enterprises and private sector companies, producer associations and intermediaries. Given the variability of these contractual relationships (they may or may not have written contracts, which may be for periods of between 1 and 20 years), it is difficult to define which of these producers qualify as scheme smallholders and which as independent smallholders. It is therefore difficult to stipulate when they can be certified as a group and when they can be certified under the certificate of a given enterprise or company.

3.3.3. Certification of producer associations

Producer associations are legal entities made up of individual producers, Social Sector enterprises and cooperatives. The individual producers in associations are, for the most part, smallholders (up to 50 hectares). Some members of associations may, however, own larger areas. Following current RSPO certification models, these associations could not be certified as groups. Only some of the members could be certified as a group (individual producers with less than 50 hectares and no contracts with companies), while others should each be certified separately, or form part of the certification of a larger enterprise.

3.4. Proposed adjustment of group certification to fit the context of Honduras

The RSPO Standard for Group Certification states:

RSPO Group Certification should remain flexible to be able to include different smallholder scenarios around the world. It is suggested that the individual country National Interpretation bodies define what characteristics of growers qualify for Group Certification. However, individual National Interpretations must provide sufficient justification to the RSPO in any decision to include specific types of growers in Group Certification.

RSPO seeks to ensure the positive participation of smallholders in the sustainable production of palm oil, so that they can improve their quality of life and benefit from the best practices and standards of RSPO. In the context of Honduras, Social Sector enterprises and producer associations play an important role because they generate economies of scale and extend the benefits of palm oil production to thousands of smallholders. It is therefore considered essential that appropriate certification models be identified for these enterprises and associations.

In view of the challenges faced in applying the current certification models in Honduras, it is proposed that the categories of groups eligible for group certification in Honduras be widened, as follows:

1. All Social Sector enterprises and individual producers (but not private sector companies) can form groups and be certified under group certification, even if they have their own mill (such as agro-industrial land reform enterprises - ECARAS)
2. For group certification, there is no limit on size of the group members land holding. (ie. Group certification is not limited to smallholders)
3. Therefore logically the *Guidance for Independent Smallholders under Group Certification* would be the relevant guidance for group certification in Honduras (i.e. this guidance would apply to groups with different sized members, not just smallholders)

The proposal will enable the mills of Social Sector enterprises to be certified as part of a group.

However if additionally a mill has contractual relationships with producers who do not form part of the certified group then these would be required to be certifiable within a period of three years after the mill has received its certification, as per RSPO requirements.

In summary this proposal will enable Social Sector enterprises and producer associations to be certified as groups, reducing their certification costs and facilitating access by Honduran smallholders to RSPO certification.

Another benefit will be that these large and complex groups will be subject to the group certification standard, which establishes clear rules for the group management system, for the group administrator, for the group’s internal evaluation process and for the admission of new members to the group. This will facilitate the management and certification of these groups.

Social Sector enterprises also buy some of FFB from individual producers. This proposal would allow individual producers to join in an ECARA’s group certification, and hence support the continuation of strong relationships with individual producers.

Table 3 below sets out the certification models for each category of palm oil producers in Honduras which would apply if this proposal were approved by RSPO (suggested changes in red).

Table 3. Certification models for category of palm oil producers in Honduras (suggested changes in red)

| Producer category | Possible certification models |
|---|---|
| Social Sector enterprises (Agro-industrial Land Reform Coopeative enterprises, other Community-based Enterprises and Cooperatives) | Group certification (without limit to the area of land holding) (Note: groups may also include individual producers) |
| | Certified together with a private sector enterprise (with which it has a contractual relationship) as part of its supply base |
| | Individual certification |
| Individual producer | Group certification (without limit to the area of land holding). (Note: groups may also include community-based enterprises) |
| | Certified together with a private sector enterprise (with which it has a contractual relationship) as part of its supply base |
| | Individual certification |
| Private sector enterprise | Individual certification (may also include individual producers / Social Sector enterprises with which it has a contractual relationship) |
| Producer association | Group certification (without limit to the area of land held under title). (Note: groups may also include individual producers and community-based enterprises) |

Annex 1. Definitions

| | |
|---|--|
| Cooperatives | Private organisations voluntarily formed by people who, in an aspiration to make their own efforts and provide mutual aid, conduct social and economic activities, in order to provide goods and services for themselves and the community to satisfy individual and collective needs. |
| Agro-industrial Land Reform Cooperative Enterprises (ECARA in Spanish) | Those companies and organisations formed by workers who uphold the primacy of work, choose communal ownership of the means of production and stipulate that the surplus generated represents a means of raising the standard of living of their members (article 1, paragraph (a), of Regulation No. 254-97 of March 1998). |
| Associative Farm Enterprises | Enterprises formed by persons benefiting from land reform who agree to pool their work, industry, services and other goods with the primary purpose of directly operating one or more of the parcels of land allocated to them by the National Agrarian Institute (INA). |
| Private sector enterprises | Enterprises constituted in the legal form of publicly held corporations or limited liability companies covered by the Commercial Code of Honduras (1950). |
| Social Sector enterprises | Social and economic units producing goods and services that they manage autonomously on the principles set out in the Social Sector Act, with a view to ensuring the financial profitability and social and environmental benefit of their members and the community. |
| Intermediary | Individual or legal entity who acts as a go-between facilitating the process of buying and selling fresh fruit and plays an intermediary role between the producer and the end-consumer, enabling the one to sell its produce and the other to acquire it. |
| Smallholders | 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. In the case of Honduras, this definition includes producers considered by law to be small producers (1–10 hectares) and medium-scale producers (11–50 hectares). Where land held under communal title is concerned, it is the number of hectares per member of the communal scheme that is taken into consideration. ⁴ |
| Independent smallholders | Independent smallholders while very varied in their situations are characterised by their freedom to choose how to use their lands, which crops to plant and how to manage them; being self-organised, self- |

⁴Definition proposed for the purposes of the adoption of the RSPO International Criteria as the national interpretation in Honduras.

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.⁵

Individual producers

Individual producers (also referred to as independent producers) who hold individual land titles. Their farms are managed by individuals and not as part of enterprises. These producers can sell their fresh produce to various buyers by verbal agreement or via formal contracts.

Scheme smallholders

While very diverse, these are characterised as smallholders who are structurally bound by contract to a particular mill. Scheme smallholders often receive technical assistance in planting and crop management. They are occasionally organised, supervised or directly managed by the managers of the company with which they have a contractual relationship.⁶

⁵Generic RSPO definition, accepted as appropriate for the purposes of the adoption of the RSPO International Criteria as the national interpretation in Honduras.

⁶Definition proposed for the purposes of the adoption of the RSPO International Criteria as the national interpretation in Honduras.