

MINUTES OF MEETING

1st Smallholder Working Group (SHWG) Meeting

(Ref: SHWG/Minutes/01-2012)

Date : 25 & 26 June 2012
 Venue : Melia Hotel, Kuala Lumpur, Malaysia

Attendees:

1	Social NGO (substantive)	Piers Gillespie (PG)	Solidaridad
2	Social NGO (alternate)	Rudy Lumuru (LR)	Yayasan Setara Jambi
3	Social NGO (substantive)	Sandra Seeboldt (SS)	OxfamNovib
4	Social NGO (substantive)	Intan Cinditiara (IC)	Sawit Watch
5	Environmental NGO (substantive)	Darmawan Liswanto (DL)	Fauna Flora International
6	Environmental NGO (substantive)	Dayang Norwana Awang Ali Bema (DNA)	WWF-Malaysia
7	Grower ROW (substantive)	Simon Lord (SL)	NBPOL
8	Grower (Malaysia) (substantive)	Syarifah Nur Afni binti Syed Abdullah (SNA)	FELDA
9	Grower (Indonesia) (substantive)	Herman Tandinata (HT)	PT Musim Mas
10	Smallholder (Indonesia)	Darto Mansuetus Alsy Hanu (DM)	Serikat Petani Kelapa Sawit
11	Smallholder (PNG)	Ian Orell (IO)	PNG Palm Oil Council
12	Smallholder (Malaysia)	Hj Faiz Abdul Rahman (FAR)	National Association of Smallholder (Malaysia) NASH
13	Supply Chain – Processors & Traders (substantive)	Sin Soon Ehian (SSE)	Sime Darby
14	Supply Chain – Finance (substantive)	Triyanto Fitriyardi (TF)	IFC
15	Expert/ Observer	Virginia Barreiro VB)	IFC
16	Expert/ Observer	Hj Wahid b Omar (WO)	MPOB
17	Expert/ Observer	Jonas Dallinger (JD)	GIZ (Thailand)
18	Expert/ Observer	Madeleine Brassler (MB)	Oxfam Novib
19	Facilitator	Jan Willem Molenaar (JWM)	AidEnvironment
20	RSPO Secretariat	Darrel Webber (DW)	Secretary General
21	RSPO Secretariat	Hj Salahudin Yaacob (SY)	Technical Director
22	RSPO Secretariat	Julia Majail (JM)	TFS & DSF Manager
23	RSPO Secretariat	Imam El Marzuq (IEM)	TFS & DSF Assistant Manager (RILO Office)
24	RSPO Secretariat	Hj Asril Darussamin (AD)	Chairman of SH INA WG (RILO Office)

Absent With Apology:

1	Grower ROW	Ricardo Torres (RT)	Fedepalma
2	Supply Chain – Manufacturers	Cherie Tan (CT)	Unilever
3	Smallholder (Africa)	Rosemary Addico (RA)	West Africa Fruit Fair
4	Grower (Indonesia)	Arnold Sipahutar (AS)	PTPN III
5	Grower (Malaysia)	Abdul Aziz bin Zainal Abidin (AAZ)	Keresia Plantation
6	Observer/Expert	Bob Norman (BN)	GreenPalm
7	Observer/Expert	Daniel May (DM)	GIZ Germany
8	Observer/Expert	Dr Marcus Colchester (MC)	Forest People Program

Opening: Introduction of participants & program

SY welcomed everyone and briefed the members of the program for the 2-days meeting. All were invited to introduce themselves.

Later, **DW** was invited to give his welcoming speech. He wishes everyone to participate meaningfully. He reminded all that the RSPO capacity will never be enough for smallholders as we are servicing throughout the world. It is therefore strategic to think how to bring the smallholder to move towards getting RSPO certified and that any pilot projects we do must be something that is replicable, both technically and financially.

AGENDA 1:

1.1 Setting the scene: Presentation history of TFS and current mandate as defined by EB; Justification for SHWG formation

- Facilitated by : Jan Willem Molenaar
- Presented by : Sandra Seeboldt

Presentation 1 : History & Achievement of TFS

History of the Task Force – Result of the Task Force (2009 to 2012) – State of affairs end 2011 – Smallholder Working Group

For details of presentation please be referred to Annex 1.

1.2 Discussion

- 1.2.1 **JM**: the study on Smallholder Funding Mechanism (SFM) by IFC should also be included in the report/updates. In March this year, RSPO and IFC signed a MoU to collaborate to do the study. An update of the study will be presented during the discussion (on SFM) tomorrow.
- 1.2.2 **DW**: Solidaridad has also been financed by RSPO on smallholders initiatives. Thus it must also be reported in this updates. **SS** explained that the Solidaridad project is an example of the projects that fall from now on under the SHWG.
- 1.2.3 **SL**: All key RSPO documents on smallholders, where possible, should be translated to other languages. **DW** explained that the Secretariat has started the initiatives to translate all key RSPO documents to many other languages (Spanish, Chinese etc). The plan is that all key RSPO documents will be translated to other languages. However, it will remain an issue on how to ensure the spirit of the documents could be maintained during translation. It is important to identify how big the issues are that we are facing, and how to manage them properly to have an optimum advantage for the smallholders and the industry.
- 1.2.4 Lessons Learnt from the Taskforce on Smallholder (TFS):
- TFS rely on multi-stakeholder participation (multi-stakeholders based)

- TFS focusing mainly on documentation & system preparation
 - TFS had more a focus to ensure that Smallholder were forgotten in the system, or more so not harmed
- 1.2.5 **SL** : the Working Group is very diverse (multi stakeholders based). It is important to get representation from all over the world (especially for SH from non-Asian countries). It is therefore important at some stage to conduct field study/checking; does it practically work/is it implemented in the field, not only refer to the audit of certification or documents, for lesson learned. It is also important to discuss what may be the priorities and that it must be in line with the WG mission.
- 1.2.6 Management of documents should be improved to optimize the WG. The Secretariat will facilitate using Google Sharing Docs and Website for any data exchange and sharing.
- 1.2.7 **DW** mentioned on the essence of consensus and sustained objection as crucial part of Working Group process, whereby Consensus means “a lack of a sustained objection”. Sustain Objection means “opportunity to explain your perspective and convince others around the group; NOT an opportunity to block the process”.

AGENDA 2:

2.1. Presentation of some existing Smallholder Initiatives

- Facilitated by: Jan Willem Molenaar
- Presented by: Julia Majail

Presentation 2 : An Overview of Palm Oil Smallholders

Indonesia Smallholders – Malaysia Smallholders – Thailand Smallholders – Papua New Guinea – Africa (Nigeria,Ghana,Cote D'Ivoire, Cameroon)

For details of presentation please be referred to Annex 2

2.2. Discussion

- 2.2.1. **FAR** : NASH (National Association for Smallholders) is the one and only registered smallholder association in Malaysia, it is an independent organization, works closely with the government. The organization fund themselves independently, they have representatives in every state of Malaysia. NASH works closely with MPOB to develop Independent Smallholders.
- 2.2.2. **SNA** : FELDA (Federal Land Development Authority) is currently managing 140,000 smallholders, with approximately 800,000+ ha landbank, produce about 500,000 metric ton of oil palm under scheme smallholders; with 4 certified mills, the smallholders were certified under the mills and plantation, the first SH Group Certification is FELDA Segamat.
- 2.2.3. **WO** : RISDA basically focused on rubber but since the highly expansion of Palm Oil, RISDA start to grow Palm Oil as well.
- 2.2.4. **PG** :
- Independent Smallholders Initiatives Project (current projects):
- ✓ Solidaridad in Indonesia :
 - Collaboration with Asian Agri at Riau
 - West Kalimantan – 500 Independent Smallholders
 - Collaboration with IFC at Palembang– 500 Independent Smallholders
 - ✓ Solidaridad in Africa (Ghana) :
 - Project with Benzo – 428 Smallholders
 - Project with Twifo Palm Oil Plantation – 255 Independent Smallholders
 - ✓ Solidaridad in Brazil :
 - Agroplama - 195 Smallholders
 - Honduropalma - 750 Smallholders

2.2.5. SL :

Independent Smallholders Initiatives Project (current projects):

- ✓ NBPOL and SIPEFF – independent smallholders certified in West New Britain PNG (2009)
- ✓ NBPOL independent smallholders certified in PNG, RAIL (2010) New Ireland (2011)
- ✓ NBPOL in Solomon Island – certified Smallholders
- ✓ Associated smallholder project WNB (PNG) Doen assisted

2.2.6. SSE :

Independent Smallholders Initiatives Project (current projects):

- ✓ Keresa Plantation have certified Scheme Smallholders
- ✓ SHARP in Liberia

2.2.7. IO : Smallholders Farm in PNG called Block, with 2 - 6 ha area per smallholder

AGENDA 3 :

3.1. Sharing: Thai experience on Independent Smallholder Certification Process

- Facilitated by: Jan Willem Molenaar
- Presented by: Jonas Dallinger

Presentation 3 : Smallholder Certification in Thailand

The Palm Oil Sector in Thailand – Sustainable Palm Oil Production in TH – Challenges and Lesson Learnt ; 1. Gain interest and Commitment of Farmers 2. Massive capacity building needed for compliance with P&C 3. Access the Required Expertise 4. Group Management Requirements and Documentation 5. Long Term Benefits and Viability of Actual Certification – Challenges on the Large Scale

For details of presentation please be referred to Annex 3

3.2. Discussion

3.2.1. JD : The most challenging is the part on how to certify smallholders, especially how to gain interest and commitment of smallholders

- For Farmers :
 - a. Access to technical advice and support
 - b. Increased productivity (yields, cost, inputs)
 - c. Higher price for quality FFB
 - d. Agro-ecological benefits (soil, water)
- For Mills :
 - a. More stable and secure FFB supply
 - b. Higher OER from better quality FFB
 - c. Supply of certified FFB
 - d. Ability to meet demand for CSPO

3.2.2. SL : Certification should never be a premise of revenue increment, the additional revenues only generated from the increasing of productivity and quality.

3.2.3. WO : Cooperatives should be an important medium to encourage smallholder organization and a catalyst to generate extra benefits for them.

AGENDA 4 :

4.1. Discussion on SHWG ToR

1. Vision and core focus of SHWG
2. Validation Governance Structure and Roles of members
 - Facilitated by: Jan Willem Molenaar
 - Presented by: Sandra Seeboldt

Presentation 4 : Smallholder Working Group

Mission of WG – Mandate – Scope – Governance – Membership

For details of presentation please be referred to Annex 4

4.2. Discussion

- 4.2.1. **IO** : It is important to have a more clearer definition of Smallholder (all type of Smallholders, especially for those having more than 50 ha farm)
- 4.2.2. **SS** : Experts / Observer role, help the Working Group to enrich the insight but have no right to vote
- 4.2.3. **SL** : SHWG to have minimum 2 physical meeting annually apart from adjacent to RT

4.3. Decision

4.3.1 The newly accepted SHWG Mission is *"To ensure that smallholders improve their livelihoods by benefitting from RSPO standards and best practices"*.

4.3.2 SHWG Mandates :

- Support and monitor trials of the application of the RSPO Principles & Criteria with smallholders
- Provide recommendation to the Secretariat/Standing Committee/ EB for approval of project(s)/ funding/ policies that have impact to the overall smallholders' development
- Ascertain the relevance, effectiveness and impact of the RSPO Principles & Criteria and Supply Chain Certification with regards to smallholders and propose adjustments to both national and generic RSPO documents
- Facilitate and support the development of global relevant smallholder knowledge base and ensure linking and learning between different countries, initiatives and technology
- Promote the development of support mechanisms and partnerships with the aim to reduce barriers for smallholders adopting sustainable production practices and RSPO certification (e.g. funding mechanism, capacity building modules, etc)
- Implement decision and/or policies by the Standing Committee/ EB on projects as well as directive to work with the other Working Groups/Task Force as and when need arise
- To promote active participation of smallholders in the RSPO organisation
- To work with all stakeholders of the RSPO, including governments, to achieve its mission.

AGENDA 5 :

5.1 Selection of Co-Chairs

- Facilitated by : Salahudin Yaacob

5.1.1 Criteria for selection of Co-Chairs are:

- a. Co-Chairs must have different background, representing different constituencies
- b. Co-Chairs must be RSPO Members

Nomination received:

Candidates	Nominator	Seconder
1 Dr. Simon Lord (Grower, NBPOL)	Solidaridad	Sime Darby
2 Sandra Seeboldt (Social NGO,OXFAM)	WWF Malaysia	Solidaridad
3 Hj. Faiz Abdul Rahman (NASH)	FELDA	Sime Darby

In the end Nash could not participate in the election, because they are not a member of the RSPO.

5.1.2 Elected Co-Chairs for SHWG (July 2012) were:

1. Dr. Simon Lord (NBPOL)
2. Sandra Seeboldt (OXFAM)

5.1.3 The Co-chairs will serve SHWG for 2 years period.

5.1.4 Oxfam indicated to only be able to ensure co-leadership until September 2012, because of funding and capacity constraints. If Oxfam needs to drop the co leadership, it will put all efforts in finding an acceptable successor that will be suggested to the WG.

AGENDA 6 :

6.1. Defining Road Map for Smallholder within RSPO

- Facilitated by : Jan Willem Molenaar
 - Presented by : Julia Majail & Sandra Seeboldt
- Presentation 5 : RSPO System & Documents (JM)**
Presentation 6 : Existing Constraints (SS)
Farm Level – Group Level – Certification Body Level - Institutional Level - What needs to be done
– Who could provide support – Role of RSPO – Support Mechanism

For details of presentation please be referred to Annex 5

6.2. Discussion

6.2.1. Urgent issues that need to be addressed

- Simplified HCV/SEIA
- Review of the group standards - is it applicable for independent smallholders?
- Guidance documents
- To review indicators for applicability from the Generic Guidance and P&C document

6.2.2. SNA : Additional points for CB level constraints:

- Lack of familiarity with RSPO SH documents/guidance and therefore difficult to have proper auditing (lack of clarity in documents does not help)
- Training needed for CBs regarding certification process on Independent Smallholder

6.2.3. JD : Additional point for CB level constraints:

- Extra accreditation needed for smallholder auditing, to provide guidance to the CB
- What is in it for CBs ? it might not be very profitable for them to certify smallholders ?

6.2.4. SY : Additional point for CB level constraints:

- It is important to have a sustainable mechanism

6.2.5. DM :

Constraint on Farm Level :

- Farmers are often not organized
- Issues and conflict around land title
- Utilization of uncertified planting materials
- 40% of SH Palm Oil plantation in Indonesia established on peatland
- Weak physical infrastructure
- Approximately 1,3 million ha of Indonesian Independent Smallholders plantation is dealing with middleman
- Most of the smallholder plantation were established in conservation or forest area

There are different types and clusters of smallholders in Indonesia, therefore it needs a specific treatment respectively. It is important to have capacity building, regarding with Good Agricultural Practices, P&C induction. The biggest challenge, is, to promote RSPO benefits for smallholders to encourage their motivation.

SPKS sees as important that in the future a specific Taskforce would be developed to monitor the outgoing projects and Certification Bodies, there are some example in field such as project by PTPN III and WWF in Indonesia that have a different perspective with SPKS

- 6.2.6. **AD** : Organize Training on Trainer (ToT) session for auditors on specific of smallholders auditing is already being done in Indonesia (INA-SWG, 40 trainers trained by now)
Needs for training are context dependent (ie parts of Malaysia : training regarding productivity is not the problem, but rather other RSPO certification issues)

AGENDA 7 :

7.1. Smallholder Certification

1. Certification Document
2. Book & Claim for smallholders –present current situation, proposed changes and next steps

- Facilitated by : Jan Willem Molenaar
- Presented by : Jan Willem Molenaar

Presentation 7 : Required changes for Smallholder certificates & FFB supply chain system

Background – Current Situation – Main Obstacles – Methodology – Unit of Certification : Proposed changes – Unit of Certification : Next Steps – Smallholders Certificates : Proposed Changes – Book & Claim - Smallholders Certificates : Next Steps – FFB Chain of Custody : Issues – FFB Traceability : Proposed Changes - Overstate incoming certified FFB volumes : Proposed changes - FFB Traders : Proposed changes - Segregated (delivery at mill gate) - Segregated (purchase at group level) - Segregated (with trader) - Assurance system - Should FFB Mass balance trade be allowed : outcome - Mass Balance (delivery at mill gate) - Mass Balance (purchase at group level) - Mass Balance (with trader) - FFB Chain of Custody : next steps

For details of presentation please be referred to Annex 6

7.2. Discussion

- 7.2.1. **JWM** : Discussion on unit of certification must include all managed land of formal group members.

The group manager is responsible to provide current OER of smallholder FFB oil and show it to the CB.

6% is suggested as PK extraction rate on Green Palm but this rate is higher than the industry level. There was proposal to determine the extraction rate of CPO, PKE, PKO based on national average.

- 7.2.2. **SL** : Certification system document should include the concept of defined land area with legal ownership (entitlement), define “group”, “group members” and “group manager” as a certification unit. We cannot be too inclusive regarding the smallholders, however it is important to underline that we cannot certify something that is breaking the rule of RSPO, since it is the major part of the organization’s integrity. There are number of parties who are willing to either buy or pay premium for CPO produced by smallholder (smallholder oil), because they can create a ‘story’ among their products (some opinion assume smallholder oil as a better oil , a fair trade).

OER based on actual rate (national/ provisional/ regional average) will encourage continuous quality improvement of FFB, group managers are allow to justify for higher actual OER.

6% currently categorized as highly figure for PK extraction rate, not every mill perform the processing of PK. Since the WG represent smallholders globally, it is important to consider that the rate will be different with regard to the geographical aspect, we would never use a global standard for productivity because the yield will be different on country basis. In term of sustainability we push the establishment of Palm Oil plantation will not destructing forested

area and try to put forward marginal area, land condition will contribute to yield and quality of FFB, the quality will effect the actual extraction rate and PK extraction rate, that's why **SL** prefer to have a figures that represent regional rate.

- 7.2.3. **AD** : according to the RSPO Group Certification System (the Internal Assessment System sub chapter), prospective member to become a formal member of the group after an initial compliance assessment within the group member. Whether a smallholder could be a member of group or not it is highly related with their compliance to the RSPO P&C.

Under the RSPO Group Certification System the certified FFB (CFFB) can only be sold through a group represented by group manager (members cannot sell their FFB by themselves), if members sell it individually it will become a common FFB not certified FFB. The mill will convert the volume of CFFB into CSPO/CPKO using an OER rate, CSPO can also be converted to abcertificate by GreenPalm (1 tonne CSPO = 1 GreenPalm certificate ; the price of certificate is based on the negotiation between GreenPalm with the buyer , for example 5 \$ / certificate), those certificates will be published to be available on the GreenPalm website where buyers can access and buy them. The money coming from GreenPalm certificate trading will go to the group manager, in the end smallholder will get income from the sales of FFB to the mill (business as usual) and the sales of GreenPalm certificate.

With refer to the discussion in Jakarta and Port Dickson, OER rates differ significantly per region and country. It was suggested that the common OER rate is around 20 %. Most of the time OER for smallholder is much below that of plantation such as ($\pm 15\%$). By using 20% as the smallholder OER standard, smallholder will get a better price from the CPO. Based on discussion with Bob Norman, GreenPalm uses the 'story' of the smallholders as the added value to sell the smallholder CPO.

- 7.2.4. **JD** : For land owners who are not ready to be certified yet and are situated within the certification area, the certification unit with clear land boundary must be clearly defined. Members with several land area should include all their land into certification in a progressive manner.

An example in Thailand showed that there is possibility to have actual smallholder OER is higher than national OER figure.

- 7.2.5. **WO** : Smallholder lands in Malaysia highly associated with Land Lord, commonly they have several plots of land and not all of them are comply with the P&C standard/requirement, these may vary on different area.

We cannot set a fix number for OER or PKE/PKO, because it will hamper from improvement, the best way is to make it flexible.

- 7.2.6. **SY** : The group member should be those who commit towards certification, those who don't want to be certified cannot be a group member. Therefore the group will produce only a certified FFB. That's why the system provides an expulsion procedure. Smallholders can decide which plot that are going to be included in the certification process. Under RSPO system the grower/smallholder can sell the CSPO through GreenPalm or UTZ, the premium will be goes back to the group manager.

It is important to set an availability of OER that is based on operational rather than OER that refer to national figures (learn from CB experience in Thailand) , for smallholder in particular.

- 7.2.7. **LR** : Concerning about the fairness of business, with regard to the FFB price control in particular. The most important aspect is to strengthen the farmers capacity, how to gain the farmers interest, how the farmers able to adopt the principles and criteria to go through the certification system.

- 7.2.8. **TF** : The working group has to assure that the money coming from Green Palm or UTZ goes straight to the smallholder, normally it stops on the mill. (as a good example, implementation in Hindoli)

- 7.2.9. **HT** : It is important to have the same perception with regard to the unit of certification for smallholder, Mills and Estates with related smallholder farm as supply base are the unit of certification for Scheme Smallholder meanwhile Group Manager is the unit of certification for Independent smallholders.
It is important to have a specific system to monitor CFFB trading, to ensure that those CFFB is sold to Certified Mills.
- 7.2.10. **JWM** : It is a very important risk, basically to mitigated this is that all sales should be administrated by the group manager (both the certificate or FFB), and CB is supposed to verify whether the group manager complies with the procedure or not
- 7.2.11. **SL** : How to regulate the sales of CFFB to an independent mills , an identified constrain for the CB is that they cannot verify independent mills since those mills were not inside the certification system.
- 7.2.12. **JWM** : Proposed steps to control, 1. Group Manager should have good administration , 2. The mill should understand the origin of the fruit, 3. Trader have to become supply chain certified
- 7.2.13. **SY** : The key point to control the CFFB trading is how the Group Manager plays its role properly to comply with the procedure, likewise the CB acts as the vericator of process.
- 7.2.14. **JWM** : The entity has to be RSPO member. Is the group a legal (entity) , the group represented by a person/organization called group manager
The scope to discuss on the smallholder supply chain certification system is not on the segregated CPO, it is specifically on the segregated FFB (FFB from certified sources). If a group start to become certified than they will be able to sell certified FFB, they do have the options either to sell certified FFB or sell the certificate.
- 7.2.15. **HT** : We have to place the system of Mass Balance and Segregation in the smallholder trading schema, because there is the possibility of combination regarding the FFB supply to the mill, if the mill able to provide 100% certified FFB supply they can produce Segregated CPO, otherwise they may produce Mass Balance.
- 7.2.16. **SS** : To get back to the focus of the topic, the main question is whether we are allowing this system as presented now to be utilized in the future with regard to smallholder schema
- 7.2.17. **AD** : Agreed with SS that the discussion is on the system, that it is possible to develop a specific system to facilitate independent smallholder segregated FFB
- 7.2.18. **JD** : Agreed with the prior discussion, yet JD thinks that the discussion not a part of the group certification system it is supposed to be the supply chain system
- 7.2.19. **DL** : It should refer to the prior discussion related to partial certification , it is not fully integrated with supply chain system but it more about how the group govern themselves, it supposed to be an internal system within the group to ensure that the certified FFB will not mixed by uncertified FFB, it not only about the supply chain system but the code of conduct of the group as well. It is very important to identify the risk of the proposed system to the smallholder, since it will affect the implementation (assurance system).
- 7.2.20. **AD** : We have two plans for pilot in Indonesia that may become a reference, In Jambi the FFB will be sold to an uncertified mill. In case of the other one, (PTPN III) the FFB will be sold to certified mill, one of the purposes of this pilot plan is to see the risk in between those two different process (sell to certified and uncertified mills).
- 7.2.21. **JWM** : the scope of this WG is not only the standard, it is beyond certification process. So if there are issues related with the smallholder either production or marketing system it may be raised thus the WG can develop something on it.
- 7.2.22. **IC** : to reminds us that there are so many challenges ahead, in addition that it will be a long process. Currently many smallholders are struggling on the land title, that's why capacity building and group management are very crucial

- 7.2.23. **SL** : program needs to developed in the future, 1. how to develop the partnership model - 2. What are the risks which mitigation measures should be taken - 3. what should we do about those smallholders area that breach RSPO standard
- 7.2.24. **DM** : in term of smallholder certification, this is always highly associated with FFB trade, Whether any assurance that CFFB coming from smallholder will not cheated with the mill, since it will be an indicator of the benefit of certification to the smallholder with regard to the FFB sales. If the CFFB also being sorted by the mill, it will reduce the motivation of smallholder towards certification.
- 7.2.25. **SL** : Discussion on mill cheating on the quality of the FFB. Selling of green certificates via Green Palm will base on the FFB volume record from the Group Manager; this means Green Palm will not address the problem of corrupted/ cheating mill.
- 7.2.26. **AD** : To preserve the grading process smallholder should implement GAP (Principle 4), if Principle 4 has been performed properly there should be no problem at the grading system, if any the group manager should step in. It is one of the benefits of certification, that smallholders they have more power in relation to the mill.

7.3. Decision

- 7.3.1. WG agreed on the suggested fixed extraction rate of 6 % for PKE, PKO to promote incentive for SH certification.
- 7.3.2. FFB Chain of Custody - Framework was presented. WG agreed on the framework. SHWG suggested for standing committee to review the SCCS document to include FFB CoC.

AGENDA 8 :

8.1. Smallholder Funding Mechanism

- Facilitated by : Jan Willem Molenaar
- Presented by : Virginia Barreiro

8.2. Discussion

- 8.2.1. **VB** : I looked at best practices of other funds. This is a way to find out what people doing in other commodities and topics to provide for resources, To look at their activities and programs that became the key of success.
- 8.2.2. **SL** : If it would be possible to propose that from every trade transaction through GP or UTZ the system can divert a larger amount of money for smallholders.
What is currently the importance / scale of money received by RSPO as the organization from UTZ and from GP to the running, considering that RSPO already receive the membership fee ?
- 8.2.3. **SY** : The RSPO currently has two major fund sources, one through the membership (30%) another one through CSPO trading (70%), so it is very crucial.
Currently, Buyers (UTZ/ GP) pay USD 1 to RSPO; USD 1 for GP or USD 2 for GP for every tonne of CSPO trading.
- 8.2.4. **TF** : It is important for IFC to get feedback with regard to the goals and timeline as reference to finish the study.
- 8.2.5. **JWM** : An idea could be that the SH fund will focus on initial certification costs which will generate a business case for UTZ and GreenPalm to support the funding mechanism and provide seed funding through trading of CSPO.
- 8.2.6. **DM** : There are several problems regarding funding smallholder mechanism, the main problems commonly are related to acces to capital and achieving increase smallholder productivity. From the current experience there are many extra costs beyond the certification cost (i.e infrastructure and fertilizer). There are problems on replanting as well since the government of Indonesia doesn't allow direct loan to smallholder, they need an 'avalist' (i.e big

company) as the guarantor. Smallholders would need that they can directly access the capital facility (bank) without dealing with the 'avalist'. Another important thing is that the grass period for Indonesian banking sector was only 1 year meanwhile the production of Palm Oil plantation is after 4 years. Currently (2006-2012) there is confusion among smallholder on how they can access the capital to perform replanting (for around 1,2 million ha of smallholder farm).

SL : Since the WG has put livelihoods as a part of its mission, we should use the WG to ensure that smallholders benefit. So to have a broader development funding mechanism. If we seek from UTZ and GP to destine part of the transaction money to flow back to the farmer, we can make a business case that they are investing in future to the people that will be trade through their system and develop win-win situation for UTZ and GP. They can get money back in, more smallholders get certified, more GP certificate is being traded, more virtual palm is being traced. However that money will then only be for the audit process. Further so, the 'smallholder fast track fund' would have to be managed by an independent body (third party), otherwise the RSPO will be to involve with the certification bodies.

The WG may need to form a workstream that focused on finding funding on livelihood project on smallholders and smallholder capacity building.

- 8.2.7. **JM** : There is room to source external funding with regard to capacity building for smallholder (lesson learned from Thailand project).
- 8.2.8. **DL** : Capacity building is very important to prepare smallholder to be ready for certification audit, other issues are the potential risk for smallholder and the WG will need to address these. Opportunity to provide infrastructure for smallholder. In terms of livelihoods I do not agreed with the idea of seeking external funding since it will make them dependent.
- 8.2.9. **SY** : in the last EB meeting, it was decided that 10% from the half of total CSPO volume traded will be dedicated for the smallholder activities.
- 8.2.10. **JWM** : one could say that there might be 3 areas of work that could be funded. The outer are of the circle is better agricultural practices. Followed by the middle area: organization. The third area is certification issues. On which areas should the fund be focusing?
- 8.2.11. **SL** : in order to get to certification the steps are pre audit and gap analysis. If, the fund was to target several projects around the world, on the gap analysis towards certification we would have some idea of what good agricultural practices is from organizational perspective, to bring them along to the point of being audited. Perhaps, calling it an audit fund is the wrong term because it is a development fund leading towards audit, we don't hit it in the middle or second circle but we do it on the third which is a good agricultural practice that have two avenues 1. It will lead to RSPO certification 2. It will make them more aware of what is required to the importance of good agricultural practices because the gap analysis will highlight all three. We will also have some ideas of what was needed to be put into an organized smallholder group in order to improve their general ability to produce sustainable Palm Oil and therefore for sustainable livelihood.
- 8.2.12. **WO** : the availability of resources (human resources in particular) towards a well-organized smallholder group is very important, because currently those people are very limited in the field, therefore capacity building will be crucial part of the development process, there should be a mechanism in a form of grant or loan to push the system implementation otherwise it will be very difficult for the group manager to run his programme.
- 8.2.13. **JWM** : in order to become eligible to pre audit, some investment need to be done (i.e the capacity of group manager, the implementation of internal control system, training, group infrastructure, hcv assessment, etc), in the other hand it is important for smallholders to get a good agricultural practices training including fertilizer distribution system since it will effect on their productivity. With refer to experience on financing Palm Oil smallholders project these are considerable budget and the challenge for the WG is to get these different cost item, to get the idea about the extent of each item because, start to defining potential source of funding.

- 8.2.14. **LR** : developing a smallholder group is analogue with developing a small company, the cost to spend (whether it is high or low) is dependent on the capacity of parties (smallholders itself in particular) that are involved in the establishment process.
- 8.2.15. **PR** : we have to balance the high risk and low risk projects to find the baseline mechanism for independent smallholders.
- 8.2.16. **SL** : we should be focusing on how to bring independent smallholders who are individuals into a usefull framework which we can then apply good agricultural practices either certification in the future.
- 8.2.17. **AD** : the money obtained by WG may be focused on 1. To close the gaps, 2. To develop the organization, 3. To develop Internal Control System (ICS), 4. Training
- 8.2.18. **JM** : RSPO need to have smallholders and the issues of supporting smallholder towards certification have been discussed more than 3 years, we need to come up with a model that will guide the process. With regards to the fund (for Thailand case0, it is not the smallholder to pay back the money but the Project has come up with a model that show a mechanism on how the fund can be re-filled back. Through this process it also leads the group from Thailand to explore how the certified group can benefitted from the process.
- 8.2.19. Co-chairs and RSPO secretariat to continue discussion with IFC on financing mechanism.

8.3. Decision

- 8.3.1. WG agreed to submit proposal to EB to negotiate possibilities to have UTZ and GP dedicate parts of their fees to the smallholder fund.
- 8.3.2. Next step: RSPO secretariat and co-chairs of SHWG will brief the EB on the basic idea on SH financing mechanism to gain support from the EB. But who to manage the fund, scope of the funding support etc. will be further discussed by the SHWG.
- 8.3.3. The WG proposes to establish a work stream to identify source of external funding for capacity building of smallholders and support on larger universe of SH activities eg. Best agriculture practices, institutional arrangement etc.

AGENDA 9 :

9.1. Overall Road Map, immediate next steps of SHWG (3 years)

- Facilitated by : Jan Willem Molenaar, Simon Lord & Sandra Seeboldt

9.2. Discussion

- 9.2.1. **SL** : The suggestion from the Secretariat and Co-chairs is to create five Work streams i.e. on document and systems, capacity strengthening, knowledge management, monitoring of trials and funding mechanism. SH WG has 25 members, each member should participate in at least one of the the work stream. Each work stream will consist of 5 WG members, 1 co-chair and 1 representative from RSPO secretariat.
- 9.2.2. **JWM** : Brief description of SHWG Workstreams :
- Document and Systems : review of standard, unit of certification, FFB trades, synchronization to the National Interpretation, review of standard (group standard, guidance documents, etc), elements of continuous improvement
 - Support Mechanism : establish training guidance, Training of Trainer for Group Manager, supporting materials in order to smallholder certification system, partnership with associated organizations
 - Knowledge Management : creating linking and learning platform, creating factsheet, organize workshops and related projects
 - Trials : identifying, developing, designing, and guiding the implementation of the smallholder system

- Funding Mechanism : develop smallholder funding mechanism, identify possibility source of smallholder funding

	WG 1	WS 2	WS 3	WS 4	WS 5
	Document and Systems	Support Mechanism	Knowledge Management	Trials	Funding Mechanism
RSPO	JM/ SY/ Asril	JM/ SY/ Asril	JM/ SY/ Asril	JM/ SY/ Asril	JM/ SY/ Asril
Co-chair	Simon	Simon/ Sandra	Sandra	Simon	Sandra
WG Members	Musim Mas Sawit Watch POC (Ian), FFI	WWF-Malaysia, FFI, Setara Jambi, SPKS, MPOB	SPKS, Felda, Sawit Watch, POC (Ian)	SPKS, MPOB, NASH, FFI, Sime Darby, Solidaridad	Solidaridad, Sawit Watch, IFC, Sime Darby
Observer/ expert	Jonas				
Core tasks	System document, guidance	Train the trainers, accreditation rules	Publication, fact sheets, linking producers, online knowledge base etc.	Identifying gaps and potential solutions	Model is presented but implementation detail need further discussion

*Spoke persons for work stream are highlighted.

9.2.3 First task for work stream is to write a TOR to outline the tasks.

9.2.4 RSPO Secretariat will ask preference from absence members i.e. Unilever, Fedepalma, 1 ENGO, 1 retailer.

CLOSING:

SL : If what we want as a WG is not what we get, than we have to look at ourselves and change what we do.

SS: It is important to realize that there is a huge, challenging but also fantastic task ahead of us all to make this working group work, and more so to achieve its mission: to improve the livelihoods of smallholders by benefitting from RSPO certification and best practices. Its means all of us have to put effort into this working group. This Group is where any smallholder development in and regarding the RSPO.

In general all participants are very positive about the meeting, in terms of organization, process and content.

END OF SHWG Meeting at 5:15pm, 26 June 2012.