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 Penulis : Nia Kurniawati Hidayat, Pieter Glasbergen, Astrid Offermans, Bustanul Arifin, Ron Corvers
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 Email : nia@apps.ipb.ac.id
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At the Bottom of Value Chain: Research on certification of palm oil in Indonesia

Nia Kurniawati Hidayat, MSc¹; Prof. Pieter Glasbergen²; Dr. Astrid Offermans²; Prof. Bustanul Arifin²; Ron Cörvers²
¹PhD candidate Maastricht University, ²Promotor

Introduction

The problem¹:




The solution?

Sustainability standards emerged and certification (RSPO) intends to be an instrument to govern agricultural production in a sustainable way.

Knowledge Gaps:

- Impacts of certification on smallholders within their social contexts.
- Farmers' resilience to stresses and shocks.
- Bottom up approach for creating rural livelihood improvement².

This study takes a livelihood approach to analyze the impact of sustainability certification on smallholders within their social context.




Research questions

Main question:
In what way and to what extent does a sustainability certification contribute to a better livelihood of smallholder farmers in palm oil?

Sub questions:
 RQ1: How does private certification relate to the livelihood of smallholders?
 RQ2: Will public certification be a viable alternative to private certification?
 RQ3: How does certification relate to the resilience of smallholders' livelihoods?

Methods

Research questions are addressed by conducting four empirical studies in Riau, South Sumatera and West Kalimantan. Semi structured in-depth interviews, surveys, observation, and document analysis through qualitative and quantitative analysis.

Results

Private certification and smallholders' livelihood^{3,4}

- Indirect effects through organizational changes (Figure 5)
- Vulnerability is not improved.
- Economic motive outweighs sustainability values.

External Factors

Global market

Vulnerability context:
(Price volatility)

Cultural, government policy and regulation

Voluntary Certification
RSPO certified

Scheme smallholders

Independent smallholders

F
S
N
H
P
Assets

Livelihood strategies (Activities)
Capacity to act

Re-investment

Priorities and preferences of smallholder farmers

Livelihood outcomes:
• More and stable income
• Increase market access
• Conserve and enhance environmental quality (soil and water)
• Social (better health and education)
• Organizational strengthening

Figure 5. Group discussion with farmers and company.

Certification is profitable under current conditions (Table. 1)
 But not profitable under the self-funded scenario unless farmers receive unrealistically high premium fees.

Table 1. Profitability of certification under actual condition

Type of smallholders	Profitability of certification (\$/kapling)*
Scheme smallholders	48,919.72
Independent smallholders	39,279.38
Better organized independent smallholders	21,234.73
"Better off" scheme smallholders	111.68
"Better off" independent smallholders	2,282.54

*Profitability of certification= NPV certified – NPV uncertified; calculated for one plantation project cycle = 25 years and 1 Kapling = 2ha

Governance capacity of ISPO⁵

- ISPO is in its initiation process; not yet fully implemented
- Currently, ISPO cannot be a viable alternative to private standards, but companies seek membership of multiple standards (both public and private)
- ISPO faces challenges to reach and bring in millions of farmers
- Strengthening ISPO's authority seems crucial.

Certification and resilient livelihood⁶

Certified farmers seem to be better able to recover from stresses and shocks than uncertified farmers. Certification makes farmers more resilient.

Conclusion

Our research concludes that Pak Sayuti (at the left):

- Has a slightly higher income than Pak Yasdin
- Remains equally vulnerable as pak Yasdin
- Perceives positive outcomes from certification on his livelihood, although this effect is small and indirect (through organization)
- Considers environmental sustainability and has better access to the market compared to Pak Yasdin
- Is more resilient to stresses and shocks compared to pak Yasdin




Reflection

Beyond private certification :

- Better organize smallholders.
- Given farmers' passivity, we need external actors to ensure a better organization.
- ISPO, when given more authority and when becoming accepted by the international market.

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Contact:
 Nia Kurniawati Hidayat/ Nia.Hidayat@maastrichtuniversity.nl
 Maastricht University / ICIS, Maastricht, The Netherlands, <http://icis.unimaas.nl>



