Uptake of certification and sustainability commitments in Indonesia: who and why?

Sophia Gnych

Key messages

1. Indonesian growers: diverse and poorly understood
2. Diversity affects motivations driving sustainability
3. Stimulating RSPO uptake / impact requires mechanisms to adapt to diverse motivations (perceptions of risk, relationships, profit expectations etc)
Production and milling differences in Indonesia

Map: presented at International Conference and Exhibition on Palm Oil by Prof Donald Siahaan, Jakarta, 26-28 May 2014
Mills data: DIS-BUN Riau and DIS-BUN East Kalimantan

Expansion trends of smallholders and companies

Source: World Bank, DAPOER database
Estimates of small, Medium and large growers in East Kalimantan: 2013

Estimates of domestic and foreign firms in East Kalimantan: 2013
Existing standards: Conflicting standards, moving targets and limited uptake

Legally mandated standards
- Production: e.g. ISPO - 62 ISPO certified, 72 in process
- Consumption: e.g. ISCC certification for EU market

Market based certification
- e.g. RSPO July 2014 - 34 companies, roughly 116 certified mills, 18% of market
- e.g. RA/SAN

Voluntary commitments
- e.g. “No deforestation, no peat, no exploitation” – 4 major traders committed, 75% of supply base
- e.g. Sustainable Palm Oil Manifesto – 6 companies

Motivations

Three categories of motivations behind firms engagement in CSR and sustainability (Aguilera et al, 2007)

1. **Ethical** - concerned with ethical standards and moral principles)
2. **Instrumental** - self-interest driven and divided in to
   - Benefits
   - Risks
3. **Relational** - concerned with relationships among group members
   - For example, relational motives at the firm level may ensure the well being of groups related to the firm (developing a loyal relationship with one bank)
   - Different actors demonstrate different types of motivations
Motivating sustainable oil palm

- **Ethical motivations**: Not consistent or strong
- **Instrumental benefit** motivations (e.g., price premium): Limited influence
- **Instrumental risk** motivations: dominant factor in decision making
  - Very variable - takes many forms
  - Reflected by grower accountability to:
    - Shareholders
    - Local communities
    - Government

Examples of risk: Conflicts in East Kalimantan

<table>
<thead>
<tr>
<th>Cause</th>
<th>Media reported conflicts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land disputes</td>
<td>44</td>
</tr>
<tr>
<td>Environmental problems</td>
<td>14</td>
</tr>
<tr>
<td>Plasma</td>
<td>9</td>
</tr>
<tr>
<td>Labour problems</td>
<td>5</td>
</tr>
<tr>
<td>Permit (overlap)</td>
<td>2</td>
</tr>
</tbody>
</table>

Growers face diverse risks:
- **Insecure licenses and permits**, overlapping tenure.
- Changing **government policies** and taxation.
- **Operational limitations** e.g. human resources, training, good planting material.
CSR programmes of major oil palm companies in East Kalimantan: a review of annual reports

<table>
<thead>
<tr>
<th>Top programmes:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Community development</td>
<td>22</td>
</tr>
<tr>
<td>Health &amp; Safety</td>
<td>16</td>
</tr>
<tr>
<td>Certification</td>
<td>15</td>
</tr>
<tr>
<td>Education</td>
<td>15</td>
</tr>
<tr>
<td>Environment</td>
<td>14</td>
</tr>
<tr>
<td>BMP</td>
<td>12</td>
</tr>
<tr>
<td>Emission reduction</td>
<td>9</td>
</tr>
</tbody>
</table>

Motivating sustainable oil palm

- **Relational motivations**: key in decision making and in mitigating risks
  - Relationships with **government**
  - **Industry associations**
  - **Internal** relationships
  - **Multi-stakeholder** groups
Ability to act and adapt

- **Internal firm capacity:**
  - Access to knowledge and information
  - Understanding of concepts and markets
  - Skills and training
  - Management structures and protocols

- **Ability to act:**
  - Legal and policy framework
  - Perverse incentives to adopt unsustainable practices
  - Limited financing
  - Infrastructure – e.g. cooperative structures to coordinate certification or access to certified mills

Recommendations

- **Diversity is important for uptake and impact.** Efforts to increase uptake and impact must recognize and adapt different motivations (incentives and disincentives) for different growers.

- **Leverage private sector-research collaborations** to study motivations along the supply chain, including smaller growers and traders.

- **RSPO should build on its existing strengths** of facilitating multi-stakeholder relationships, in order share information with, and bring on board, stakeholders it has not yet succeeded in engaging.
Thank you

Contributions from:
Godwin Limberg (Daemeter)
Idsert Jelsma (CIFOR)
Krystof Obidzinski (CIFOR)