

Smallholders in Global Bioenergy Value Chains and Certification: Evidence from Three Case Studies Overview¹

Over the last few years, there has been growing interest in modern bioenergy, due in part to its potential for rural development and climate change mitigation, and as an energy alternative given the high price of oil. At the same time, concerns regarding the possible negative impacts of modern bioenergy development and the sustainability requirements introduced in key importing markets have led to the development of a range of voluntary standards aimed at ensuring the sustainability of bioenergy production.

While one of the goals of voluntary standards is to enhance the sustainability of bioenergy production – including from a socio-economic perspective – they might also present a disincentive for incorporating smallholders in value chains, due to greater cost and complexity. The FAO's Bioenergy and Food Security Criteria and Indicators (BEFSCI) project has conducted three case studies to examine the opportunities and challenges for smallholders presented by: 1) bioenergy as a new type of value chain, and by 2) bioenergy certification schemes.

Case Studies: Contrasting Three Countries, Three Feedstocks, Three Business Models, Three Certification Schemes

Peru, with SNV²

- Feedstock: Sugar cane
- Business model: Outgrowers/Contract farming
- Scheme: International Sustainability and Carbon Certification (ISCC)

Mali, with IIED³ and RSB⁴

- Feedstock: Jatropha
- Business model: Joint venture/Cooperative
- Scheme: Roundtable on Sustainable Biofuels (RSB)

Thailand, with GIZ⁵

- Feedstock: Oil palm
- Business model: Partnership farming/Independent smallholders
- Scheme: Roundtable on Sustainable Palm Oil (RSPO)

Key Findings from Case Studies

Under current scheme structures, **smallholders can still participate in global bioenergy value chains, even without becoming certified**: Each of the three schemes analysed (i.e. the International Sustainability and Carbon Certification [ISCC], the Roundtable on Sustainable Biofuels [RSB], and the Roundtable on Sustainable Palm Oil [RSPO]) allows for a mass balance chain of custody, which means that a percentage of the feedstock can come from uncertified sources or suppliers. In the Peru case, Caña Brava, which achieved certification of its own plantation and production, can still purchase feedstock from uncertified smallholders based on the mass balance chain of custody guidelines of ISCC.

There is a lack of current incentives for the certification of smallholders: This is tied in part to the mass balance chain of custody mechanism mentioned above, which allows companies that are interested in certification or certified to still include smallholders in their value chain, purchasing up to a certain share of feedstock from them (and smallholders themselves can conversely still sell to current off-takers). The early stage of involvement of many smallholders in bioenergy supply chains, the uncertain price premium, costs and process of certification, and the combination of these factors, have resulted in there being little incentive to pursue certification in the three case studies explored in this paper. For example, in the Thai case, with the current low price premium for RSPO certified palm oil and the strong negotiating position of smallholders with the mills, it has been challenging to convince smallholders of the added value of certification.

¹ The full report is available here:

www.fao.org/bioenergy/foodsecurity/befsci

² Netherlands Development Organisation www.snvworld.org

³ International Institute for Environment and Development, www.iied.org

⁴ Roundtable on Sustainable Biofuels, <http://rsb.epfl.ch/>

⁵ Deutsche Gesellschaft für Internationale Zusammenarbeit, <http://www.giz.de>

Farmer organization is a key determinant of the success of both engaging with buyer companies, and of managing the certification process: In all three case studies, there existed at least a minimum structure for group formation and management of farmers. The group structure was a key factor in the success of both participating in the value chain and for the potential to become certified. The type of farmer organization varied based to some extent on the business model in each case. For example, in Mali the farmers are organized in part by participation in cooperatives, and in part by a donor supported foundation.

Recommendations at Various Levels of Governance

The challenges for smallholder inclusion in global bioenergy value chains explored in the BEFSCI report require intervention at various levels of governance. The success of intervention will depend on the ability of actors to address these challenges jointly after having defined the role of each institution.

Create incentives for smallholder inclusion at the policy and private standard levels: Governments could provide incentives to producers who incorporate smallholders into their value chain. Voluntary standards for certification continue to be targeted mainly towards large-scale plantation model producers and no standard currently includes specific criteria to require or reward the inclusion of smallholders⁶. Adding mechanisms (different labelling or communication) that differentiate smallholder production could provide a means for achieving a higher premium in the market and encouraging companies to incorporate smallholders.

Capacity building on certification should be incorporated into existing efforts aimed at creating shared value: It is important both for the long-term sustainability of the business model and in pursuing certification that the reason for working together (company and smallholders) is a genuine economic interest (in addition to any other social

or environmental goals). Careful consideration should be given to identifying not only the capacity building needs of smallholders, but also to how both smallholders and the purchasing company will benefit through the relationship first, and then how certification benefits will be distributed.

Tailor smallholder inclusion measures to the specifics of both the country and crop: There is not a universal business model or smallholder certification mechanism (e.g. group certification, step-wise certification) to point to that provides greater benefit than others. The success of the business model and certification mechanism will depend on the specific policy, market conditions, and feedstock characteristics present in each specific case. As evidenced by the variety of results within the case studies, it is important to ensure that future interventions reflect these different characteristics and address the specific challenges they pose. For example, the interventions required in Peru will be quite different to Thailand and Mali, given the difference in negotiating position of smallholders, current price premium for the various certified crops/fuel, and the regulatory environment, among other factors.

Develop financial mechanisms to enhance smallholder inclusion: One recommendation for standards to foster inclusion of smallholders in certification, or at a minimum reduce the barriers, is to establish a fund to pay for smallholder certification, as is currently under development in the RSPO. Other entities, such as development banks or international donors, can also design technical assistance grants/programmes targeted towards smallholder inclusion and capacity building around certification. Additionally, financing institutions could create and expand specific financing facilities targeted towards smallholders.

The full BEFSCI report *Smallholders in Global Bioenergy Value Chains and Certification – Evidence from Three Case Studies* (2012) is available here:

www.fao.org/bioenergy/foodsecurity/befsci

⁶ In cases where smallholders are present in the area, especially if they were included in the value chain prior to certification.