

Chapter 16

Global certification of agricultural products in Indonesia: curse or blessing?

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Abstract

Consumers in developed countries are increasingly being seduced to buy so-called sustainable, certified products. The higher purchase price of many of these products is justified by referring to numerous advantages for farmers in developing countries. Current research into the impacts of certification is however fragmented, and conclusions often appear contradictory. Therefore, the “Global Certifying Partnerships” project analyses the effects of certification of agricultural products on Indonesian farmers. It also analyses the responses of Southern governments and NGOs to certification schemes which are mostly developed by Northern-based business-NGO collaborations. This chapter reports some preliminary insights and concludes that certification may lead to direct, but also indirect benefits for Indonesian smallholders. To better understand the (potential) impact of certification on Indonesian farmers, it is however crucial to obtain a better understanding of the social, political, and economic structures in which certification is embedded and through which certification may affect Indonesian smallholder’s livelihoods.

16.1 Introduction

Products certified as sustainable are generally more expensive than conventional products. The higher purchase price of many of these certified products is justified by referring to numerous advantages for farmers in developing countries. By paying a bit more for a certified product, the consumer is believed to contribute to better living conditions, a cleaner environment and a richer nature in developing countries in Asia, Latin America, and Africa. Most research into the effects of certification on farmers has been conducted in Latin America and Africa (e.g. Arnould et al., 2009; Bacon et al., 2008; Bacon, 2005; Bechetti and Costantino, 2008; Bitzer, Glasbergen, & Arts, 2013; Raynolds et al., 2004; Ruben and Zuniga, 2011; Ruben and Fort, 2012; Valkila, 2009), and little is known about the effects of certification on farmers in Asia, and Indonesia in particular. Indonesia is, however, an important exporting country for agricultural products like coffee, palm oil, cocoa, and rubber.

16.2 The rise and rationale of certification

Since food and food products being consumed in Northern (developed) countries are often produced in Southern (developing) countries, consumer behaviour in the North affects agricultural practices in the South. This does not only relate to the quality standard of a product, but also to the way in which it is produced. In recent decades, awareness has increased that Southern countries alone cannot take the full responsibility for meeting Northern requirements and for combating the negative consequences of the global production and consumption of agricultural products. These negative consequences relate in the first place to poor living conditions for the farmers and their families in developing countries, with farmers struggling to survive economically, and to the devastating effects on the environment (for example due to excessive use of pesticides and fertilisers). Sustainability certification schemes, which were introduced into the market and significantly increased in numbers from the 1990s onwards (Ecolabel index, 2015) can be seen as a response to these issues. These certificates are often developed and monitored by so-called Partnerships in the North to regulate the agricultural production globally, and particularly in the South. To become certified, farmers have to comply with standards and requirements of good agricultural practices. These include reforestation of river banks, banning child labour, reduced use of pesticides and fertilisers, using protective clothing and shoes, and using artificial retention basins for waste-water. Farmers with a certificate generally receive training, a premium fee, or both, depending on the scheme (and sometimes the exporter) they cooperate with.

Well-known private certification schemes include UTZ (e.g. cocoa, coffee, tea), Fair Trade (e.g. coffee, tea, nuts, rice, spices), Organic (e.g. cocoa, tea, clothing), RSPO (palm

oil), 4C (coffee), MSC (fish) and FSC (wood). Companies such as Unilever and Mars can buy certified products as a way of showing environmental and social responsibility, as set out in their Corporate Social Responsibility (CSR) strategies. Other businesses, as well as Northern NGOs, actively promote the demand for certified agricultural products (Arifin, 2010; Pesqueira and Glasbergen, 2012), and more and more consumers choose to buy certified products, although this is still a niche market. In 2009, only 8% of all globally exported green coffee beans had some form of certification. The Netherlands is among the leading countries in terms of the market share of certified coffee, which amounted to around 40% in 2009 (compared to 16% in the United States and 5% in Germany) (ITC, 2011).

Many empirical studies have been conducted to analyse the impact of certification. Results, however, often seem contradictory and fluctuate between attributing positive effects to certification (see for example Becchetti and Costantino, 2008; Consumers International, 2005; Reynolds, Murray, and Taylor, 2004; Rueda and Lambin, 2013) through attributing insignificant benefits (Bacon 2005; Bacon et al., 2008; Bitzer, Francken and Glasbergen, 2008; Valkila 2009), and even attributing negative consequences for livelihoods to certification (for example Beuchelt and Zeller, 2011; Utting-Chamorro, 2005). Negative consequences often relate to increasing dependency of farmers and to costs, whereas positive effects mostly refer to higher income for farmers, better livelihood conditions, and/or better environmental conditions.

16.3 Farmers' preferences for certification

Certification as designed by actors from the North may ignore difficulties faced by farmers in the South. Farmers often have to change their traditional farming methods and abandon local values. At farm level, Wahyudi and Jati (2012) observe that many farmers hardly understand the meaning, mechanism, and purpose of certification programmes. They are not fully aware of the benefits and the rationale of certification for sustainable agriculture. Because of this, many farmers feel that certification is favouring Northern businesses and consumers, and is a tool to discriminate against their products. So what does the most preferred certification scheme look like to Indonesian farmers themselves? One of the authors, Ibnu, has analysed farmers' preferences for various characteristics of existing certification programmes. He examined the preferences of coffee farmers participating in three global certification schemes (4C, Rainforest Alliance, and UTZ certification), and one locally issued standard (Inofice Organic) in the Indonesian province of Lampung.

Ibnu (2015) found that farmers are rather comparable in terms of their preferences, regardless of the certification scheme they are part of. The presence of a price premium is the most preferred attribute, followed by environmental conservation, a price differential against uncertified coffee, farmer groups or cooperatives as targets,

emphasis on fairness, price differentials based on coffee bean sizes, no contract, and no pre-finance but cash payment at the transaction stage (see Table 16.1). For more information about the methods used, see Ibnu et. al (2015).

Table 16.1 Characteristics of the most preferred certification scheme according to coffee farmers in the Indonesian province of Lampung

Preference 1 *	Price premium
Preference 2	Focus on nature conservation (defined by the farmers as conservation of cultural heritage)
Preference 3	Price difference (higher price) compared to non-certified farmers
Preference 4	Focus on farmers in a group or cooperative (instead of individuals or companies/estates)
Preference 5	More emphasis on fairness as a goal
Preference 6	Price differential based on coffee bean sizes (higher price for larger beans)
Preference 7	Absence of contracts with buyers
Preference 8	Absence of formal credits

* The order of the preferences indicates the importance attached to each characteristic by the farmers. Preference 1 was considered the most important characteristic, followed by the second, third etcetera.

Price differentials based on the coffee bean sizes (preference 6) are currently not yet part of any certification scheme. Regarding the environmental focus, farmers who subscribe to the local Inofice standard attached higher preference to organic than to conservation, but farmers from the other schemes preferred conservation. Ibnu also showed that, according to the farmers, nature conservation in this context explicitly focusses on the conservation of cultural heritage, and to a lesser extent on nature conservation. Fairness was considered important as most farmers did not fully understand the price-setting mechanisms; they had the feeling they might be receiving unfair prices, which ought to be higher. The preference for not having a contract or credit results from the farmer's lack of understanding of formal procedures and the strong social ties with family and friends. Farmers prefer to be free to sell coffee to anyone offering higher prices; they sometimes even keep coffee at home to see whether prices will increase, or they prefer to sell to anyone with whom they wish to uphold social relations. They are afraid that formal contracts may prohibit them from doing so. Also, not understanding formal procedures concerning credit and possibilities to borrow money from family and friends lead to a preference for not having a formal credit option through their certification scheme.

16.4 Influence of certification schemes on economic performance

Although not all aspects of existing certification schemes are valued by the farmers, we can still examine whether farmers benefit financially from certification. Sri Astuti (2015) found that certified farmers do indeed receive higher prices for their coffee compared

to conventional farmers. This difference is rather small, however (€ 0.03 - € 0.16 per kilogram), depending on the coffee brand (Robusta or Arabica), and results from the better quality of the certified coffee beans rather than the certificate as such. This higher quality is manifested in lower moisture content, less physical defects, and larger-sized beans, compared to conventional coffee. The margins for farmers, traders, and exporters are higher for Arabica coffee than for Robusta coffee. This can be explained by the preferences of the domestic, Indonesian consumers. Indonesians consider Arabica coffee from Gayo in Aceh an exceptionally good brand with a very good taste, and are hence willing to pay higher prices for these beans. The absolute gross margin in the table below refers to the average extra price paid for certified coffee compared to conventional coffee. If we sum up these margins for all actors, we see that farmers only receive 1.36% (in the case of Robusta coffee) and 5.6% (for Arabica coffee) of the total additional price paid for certified coffee compared to conventional coffee. Sri Astuti concluded that it is not the Indonesian coffee farmer who benefits most from the higher price paid by the consumers, but the roasters, who take the largest absolute gross margin in the value chain (see Table 16.2). This may not be too surprising from an economic point of view (as the roasters transform a raw product into a consumer product), but it is surprising from a sustainability point of view.

Table 16.2 Actors pay more for certified coffee than for conventional coffee; this extra margin is called “economic rent”. If we look at the total amount of economic rent earned through the entire coffee production chain, we see that the farmers’ economic rent is low in both absolute and relative terms. The roasters benefit most

	Actor	Absolute gross margin per kilo in Rupiah/ Euro. (Average price per kg of certified coffee minus the average price per kg of conventional coffee)	Relative gross margin (Relative share of each actor in the total gross margins of certified coffee compared to conventional coffee)
Robusta	Farmer	400 / 0,03	1.36%
	Trader	231 / 0,01	1,47%
	Exporter	500 / 0,03	1,70%
	Roaster	81800 / 5,29	95,46%
Arabica	Farmer	2200 / 0,16	5,6%
	Trader	2100 / 0,15	5,4%
	Exporter	2050 / 0,13	5,3%
	Roaster	32500 / 2,10	83,7%

16.5 Potential effects of sustainable palm oil certification on smallholders' livelihoods

If the financial benefits of certification can be said to be quite small, can we then define other benefits, for example positive effects on the farmers' livelihoods? Existing studies show conflicting results, which can partially be explained by the different and often random selection of variables. Kurniawati Hidayat therefore suggested an amended sustainable livelihood framework to better conceptualise the relation between certification and smallholders' livelihoods.

Kurniawati Hidayat's study (2015) indicates that the Roundtable on Sustainable Palm Oil (RSPO) – which sets standards for and certifies sustainable palm oil – has the potential to improve the livelihoods of certified smallholders in a direct and indirect way. Certification directly increases a smallholder's opportunities for strengthening their organisation, training, and use of safety equipment (see Table 16.3).

Table 16.3 Benefits of certification for smallholders' livelihoods

Assets	Direct	Indirect
Social capital		
Strengthening organisation	√	
Increasing smallholders' trust in organisation		√
Increasing participation in organisations		√
Increasing connections and networking		√
Human capital		
Increasing opportunity for training (improving knowledge and skills)	√	
Better health		√
Physical capital		
Providing safety equipment and building chemical storage system, sanitary rooms, waste ponds, and owl's nests and planting <i>Turnera</i> (white alder flower)	√	
Natural capital		
Conserving soil and water quality		√
Protecting biodiversity		√
Financial capital		
Increasing income		√
Increasing credit access		√
Premium fee		√

Thanks to improvements to their production methods, the smallholders may thus indirectly profit from participation in the certification scheme. This means that they are able to improve the volume and quality of their production. Participation in the certification scheme does not, however, significantly improve the farmers' access to the

global market, nor the farmers’ vulnerability to price volatility. This can generally be explained by the fact that certified farmers remain dependent on companies (mills), as the buyers of their products, who also set the prices.

16.6 The role of Indonesian NGOs in certification

Instinctively we might expect that NGOs may play a role in strengthening farmers’ bargaining position towards companies, or reducing their vulnerability to price fluctuations in the context of certification. Kosasih studied 26 Southern NGOs working all over Indonesia to find out their opinions and roles regarding certification. She identified four different roles adopted by Indonesian NGOs and found that these roles can be explained by two dimensions: an NGO’s orientation and their attitude towards change (see Figure 16.1).

OUTWARD	Intermediary Organisation (8)	Certification Facilitator (6)
INWARD	Guardian of Local Values (3)	Solution Provider (9)
	CONSERVATIVE	PROGRESSIVE

Figure 16.1 Roles of Southern NGOs and the number of interviewed NGOs that could be identified as fulfilling each role (total N=26)

An NGO’s orientation refers to their definition of who is responsible for solving problems resulting from certification. This orientation can be inward (e.g. they see themselves as being responsible for it), or outward (e.g. they regard other actors as being responsible and expect them to take action). The response towards change may be conservative in the sense that NGOs are reluctant to embrace new realities. This often results in framing certification as a threat and in a desire to adapt certification schemes to local values. Progressive NGOs are more receptive to change and are willing to learn about certification and to approach new realities as an opportunity rather than a threat. These two axes result in four roles:

- 1) Intermediary NGOs using certification to link the global context with the local context (for example by mediating between international NGOs, local/national NGOs, and businesses).
- 2) NGOs facilitating certification and working together with companies assisting farmers to be compliant with certification standards. They generally approach certification as something that can no longer be denied or stopped.
- 3) Safeguarding traditional values, which translates as emphasising the “indigenouness” of agricultural practices. These NGOs often associate certification with a Western concept that is judged to be in disharmony with local traditions; they explicitly reject certification.

- 4) Solution providers acknowledge that certification is difficult for smallholders. They offer alternatives if certification does not fit the farmers' situation.

Although NGO roles have proven to be dynamic, and thus changeable over time, the role of solution provider was most often identified, closely followed by the role as intermediary organisations. For smallholders, this implies assistance to meet requirements, or the provision of alternatives if certification turns out to be unfavourable for the smallholders. For example, the Participatory Guarantee System (PGS) requires trust among all members, as it aims to implement sustainable practices without formal evaluation procedures.

16.7 Response of the Indonesian government to private certification

As we have seen, NGOs respond to certification in different ways. What then about governments? How do they respond to, and perceive, the phenomenon of private certification schemes that try to regulate the production of agricultural products in their country? Do they also provide alternatives to private certification? The literature indicates that the presence of private certification can be both positive and negative for Southern governments. Positive, as it offers opportunities to improve their image (Martinez and Poole, 2004; TSPN, 2011) and expresses a sense of good governance, conveying transparency, accountability, and efficiency. Governments may also gain (or be assisted in gaining) technology transformation, transfer of knowledge and skills, more efficient management systems, and an upgrade of agricultural market conditions (Douma & van Wijk, 2012; Martinez & Poole, 2004). Negative aspects often refer to sharing authority in the agricultural management system and losing their sovereignty (or part of it).

Wijaya investigated the Indonesian government's response to the private certification of palm oil through the Roundtable on Sustainable Palm Oil (RSPO). In an early phase, and influenced by trade liberalisation and decentralisation, the Indonesian national government took a non-responsive position towards the RSPO. Later, the government realised that the RSPO was becoming more and more successful as a sustainability scheme; they accepted the RSPO as a new management model and became involved, adopting the role of an expert on the Indonesian context. In this new role they learnt a lot about private certification, and confidence grew that the government itself would be able to develop its own system of sustainability standards. In this phase, the government developed their own public certification scheme for palm oil, the Indonesian Sustainable Palm Oil (ISPO) in 2009. Wijaya examined the reasons underlying this decision and identified three important aspects. First, the government increasingly approached the regulation of palm oil production as a national issue that should become part of their governmental responsibility. Second, from a feeling of

national pride, the government wanted to express its dissent towards the RSPO and the perceived unbalanced power relation between consumer countries in the North and producer countries such as Indonesia in the South. And third, the government started to view the RSPO as a trade barrier for their palm oil exports. Important parts of the market for palm oil were supposed to be best approached with an Indonesian and legally based certification scheme, the ISPO. The recent experiences with the ISPO inspired the Indonesian government to also develop national sustainability standards for coffee and cocoa. This indicates that a new policy approach in agricultural sustainability certification has emerged in which a Southern country gradually takes a leading role and affirms its national identity as a producing country.

16.8 Conclusion

Whether global certification is a curse or blessing for Indonesia cannot be answered in this single chapter. The practice and even the concept of certification are still being debated, and the profitability of certification for Indonesian farmers is only glimpsed. It is important to gain a better understanding of the role of certification in enhancing sustainability, and in particular improving the livelihoods of farmers and their families in the South who are involved in global agricultural product chains. It also seems important to closely monitor currently emerging alternatives to private certification schemes, initiated by NGOs or governments, to learn more about mechanisms to improve sustainable production processes.

This chapter has shown some aspects of global certification. The various actors involved in it, the opportunities and challenges it brings, and the mediating factors that may play an important role in explaining the relation between certification and improvements to livelihoods, are crucial to understand how good or bad certification is. Certification targets a very complex system that does not only refer to agricultural practices in the South, but also to global trade relations that link Northern consumption and its externalities to Southern production and impacts. This complexity asks for a holistic analysis of, and a more integrated approach to, global certification. Amongst other things, this requires better insight into relations between Northern and Southern actors, but also among actors in the South. It is important to understand motivations for Southern actors to join certification (or not), and to understand obstacles undermining the potential of certification to improve the livelihoods of farmers and their families. Lastly, the complexity of certification is manifested in the existence of formal and informal political, economic, and social structures inherent (and sometimes very specific) to Indonesian society. A thorough understanding of these structures is therefore required as well. In the next phase of our research we are trying try to shed more light on these complexities.

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