

**RSPO**  
Roundtable on Sustainable Palm Oil

# RSPO SMALLHOLDER FUND

## Advice on Fund Strategy

Julia Majail  
Taskforce on Smallholders & Dispute Settlement Facility Manager  
RSPO Secretariat



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## Outline

- Introduction
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- Monitoring & Evaluation



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## Introduction

- In March 2012, RSPO collaborated with IFC to facilitate the development of the smallholder funding mechanism.
- In September 2012, RSPO Secretariat together with the Smallholder Working Group engaged a Consultant to review the existing documents and provide recommendation for the final design and/or formulation of the RSPO Smallholder Funding Mechanism.
- The objective of this paper is to present the proposed concept, objectives, strategy, size, focus, governance structure and investment process of the RSPO Smallholder Fund.



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## General steps setting up a fund



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## Fund Strategy

- Start as a grant facility (no Return on Investment) and investigate the feasibility to raise an *impact first investment* fund.
- The fund focuses on smallholders (oilpalm)
  - the beneficiaries are independent smallholders
  - applicants of the fund will be Group Managers of independent smallholders and support agencies.



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## Fund Objectives

The direct objectives are:

- To increase smallholders' access to RSPO certification
- To create a 'ready for micro investment' portfolio of RSPO certified groups of smallholders
- To ensure that smallholders improve their livelihoods by benefiting from RSPO standards and best practices.
- Because the fund size starts very small the advice is to focus on a specific region and/or part of the certification process.



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## Fund Focus

- To start the fund with an exclusive focus on South-East Asia
- The size (investment need) of the different projects in the pipeline are not known but will differ depending on the size (like number of farmers included), the complexity (e.g. organized versus non-organized) and the scope (complete certification process or just a part of it).



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## Fund Size and Deal Size

- Priority 1:** To allocate resources to audit costs of all potential certification processes (optional: to include one surveillance audit for each applicant).
- Priority 2:** Use the remainder of the fund for projects that cover other initial or recurrent costs
- It is strongly advice to give preference to projects with co-funding that will leverage the impact of the relatively small size of the fund (e.g. 100% of certification audit costs, 50% of other initial costs and 50% of recurrent costs).
  - Suggest to commit budgets for 1 year, with possible extension if sufficient progress is achieved.

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## Fund Focus

Initial costs	Recurrent costs
Awareness building	
Organization/ ICS	Organization/ ICS
Farmer training (on Good Agricultural Practices and other RSPO relevant requirements)	Farmer training
HCV/SEI Assessments	
Corrective actions	Corrective actions
Pre-certification audit	
Certification audits	Surveillance audits
Project management	Project management

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## Setting up the RSPO Smallholder Fund

Start as a grant facility

Broaden and strengthen portfolio

Include different types of financiers

## Setting up the RSPO Smallholder Fund

Phase	Progress Target
PHASE 1 2012-2014  <b>Grant facility base scenario</b>	<ul style="list-style-type: none"> <li>Start as a grant facility focusing on certification related costs</li> <li>Focus on well defined and high quality projects (professional partners, well organized groups, etc)</li> </ul>
PHASE 2 2014-2016  <b>Grant facility growth scenario</b>	<ul style="list-style-type: none"> <li>Broaden the project portfolio, with more grants to the infant stage of the certification process</li> <li>Strengthen portfolio of credible projects and partners</li> </ul>
PHASE 3 2016-2017  <b>Impact first investment/finance fund</b>	<ul style="list-style-type: none"> <li>Include soft loans in combination with output based grants (when the group gets certified, X% of the loan will be granted)</li> <li>Possibly broaden scope to yield improvements (e.g. fertilizer input, replanting, etc.)</li> </ul>

## Setting up the RSPO Smallholder Fund

Phase	Progression	Fund Source
Phase 1	<ul style="list-style-type: none"> <li>Build portfolio 2012-2014</li> </ul>	<ul style="list-style-type: none"> <li>10% of the fee paid to RSPO on CSPO uptake (in 2012: USD 350k, 2012 and years following might be a bit more)</li> </ul>
Phase 2	<ul style="list-style-type: none"> <li>Scale up 2014-2016</li> <li>assess pipeline to make an investment case (2015)</li> </ul>	<ul style="list-style-type: none"> <li>Additional funding sources like additional fees on (Smallholder) CSPO Certificates/trade, grants from institutional donors and contributions from organizations that are directly involved in the value chain and benefit from the certification process.</li> </ul>
Phase 3	<ul style="list-style-type: none"> <li>Phase out (no feasibility for investment fund) or migrate (2016-2017)</li> </ul>	<ul style="list-style-type: none"> <li>Social impact investors in combination with value chain actors (e.g. retailers or mills), fees on (Smallholder) CSPO Certificates/trade &amp; Institutional donors.</li> </ul>

## Organizational Structure

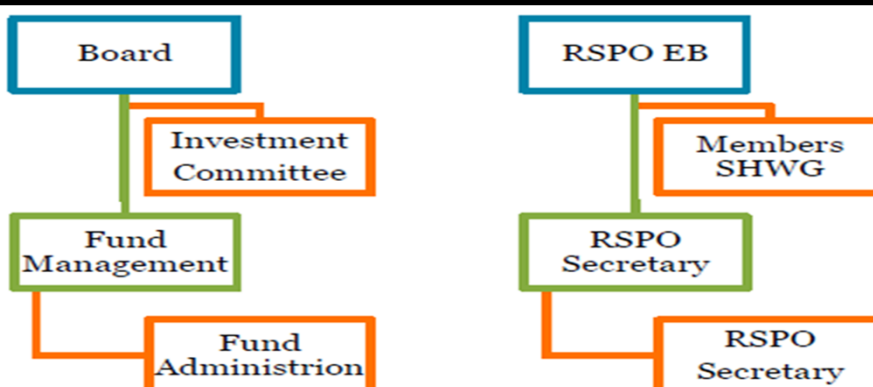
- In the short term the fund can be organized as a project embedded in the RSPO organization.
- Long term, the structure will follow the fund strategy (open end, closed end, impact first) depending on the development of portfolio and pipeline.



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## Organizational Structure



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## Management and Staffing

- **Investment Committee:**

- investment decisions will be made by the Investment Committee comprising (non-conflicting) members of the Smallholder Working Group (SHWG).
- comprises at least 3 members and is chaired by a financial expert
- to elect members of the Investments Committee for a 2 years period by the other members of the SHWG.



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## Management and Staffing

- **Fund manager:**

- a dedicated fund manager located in South East Asia, who reports to the RSPO executive board (RSPO EB)
- has knowledge about the target group and its investment needs
- not a specialist in certification, but should be more all round having insight in the feasibility of the smallholder business (and project)
- can do a reality check on the investment need



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## Investment Process



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## Criteria for Eligibility

- directly related to obtaining RSPO certification and the promotion of sustainable production practices of independent smallholders
- applicant should be a legal based organization, either a group manager or supporting agency (private or non-profit) and not involved in illegal practices or land right conflicts
- applicant has a proven experience in smallholder support and oil palm sector
- has a maximum duration of three years with clear milestones set after the first year
- preferable the project will correspond to the co-funding criteria



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## Application procedure

- shortlist and identify promising projects to support
- Support application processes of applicants (which includes assisting applicants in writing proposals), assessment and negotiation
- Approval of proposals by Investment Board (every 3 months during the first year(s) and then every 6 months)
- Contracting
- Monitoring (including field visits for selection of projects)



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## Monitoring and Evaluation

- Quarterly report on status pipeline
- Quarterly report on performance of portfolio
- Quarterly report on financials of the fund
- Monitoring field visits
- Internal and/or External evaluation on social and environmental impacts



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Julia.Majail@rspo.org

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