SUSTAINABLE CERTIFIED COCONUT OIL PRODUCTION (SCNO)

SUMMARY REPORT

FOR THE PHILIPPINES AND INDONESIA
ABOUT SCNO

The Sustainable Certified Coconut Oil Production (SCNO) is a joint project by the private and public sector together with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in the Southeast Asian countries Indonesia and Philippines. The project was financed by the private partners Cargill, BASF and Procter & Gamble and the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by GIZ and the countries’ strong national partners. Over a period of 4 years (November 2015 – October 2019) and with a total volume of almost 4 million euros, the project paved the way to increase the income and economic self-sufficiency of smallholder coconut farmers in selected regions of the Philippines and Indonesia through supporting a sustainable certified coconut oil supply chain.

IN ASSOCIATION WITH

Public Partners

Private Partners

National Partners

Implementing Local Partners
Sustainable Certified Coconut Oil (SCNO) Production Project in Indonesia and the Philippines

EXECUTIVE SUMMARY

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   - THE JOURNEY
   - BECOMING AN ENTREPRENEUR
   - GUARANTEEING SUSTAINABILITY
   - SUSTAINING IMPROVEMENT
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3. OUTLOOK
EXECUTIVE SUMMARY

Market Situation
There is a considerable trade with coconut-based products around the world. Overall, the demand for coconut products is increasing. However, 80% of the coconuts produced in the Philippines are being processed into coconut oil, while the share is at about 20% in Indonesia. The Philippines is the largest producer and exporter of coconut oil worldwide followed by Indonesia. Together, the two Southeast Asian countries contribute 70% to the world-wide trade with coconut oil.

The Producers
The coconut sector contributes to the livelihood of about 5 million families in Indonesia and about 3.5 million coconut farmers in the Philippines. Still, many live below the poverty line. These coconut farmers usually work on a weak resource base with limited access to financing and little technical knowledge. The majority lacks the know-how to improve the productivity of their farms. Often, smallholders do not have access to agricultural extension services or other support structures.

The Consumers
Consumers of coconut-based products are increasingly concerned about the quality and sustainability of the agricultural production. They demand that the products they are buying are produced sustainably. Often, the environmental and socio-economic aspect are questioned. These factors motivate the private sector to act. This is achieved through a commitment to help farmers secure their living while responding to the doubts of consumers by offering sustainably produced and certified products.

The Partnership
To fulfill this vision, the companies partnered with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), co-funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) under its develoPPP.de program. The project is jointly implemented by committed national partners, such as the Philippine Coconut Authority (PCA) together with the Agricultural Training Institute (ATI) and Bureau of Agriculture and Fisheries Standards (BAFS) for the Philippines.

Training smallholder farmers on farm business skills, Good Agricultural Practices (GAP) and on how to comply with an internationally recognized sustainability standard. Supporting certification of their farms by introducing the Rainforest Alliance Sustainable Agriculture Standard. Establishing a chain of custody for the coconut oil supply chain that supports higher income and economic self-reliance of coconut farmers, while creating a marketable product such as Rainforest Alliance certified coconut oil, that can be traded globally.

Inclusive Business provides direct market access for certified farmers by buying raw materials directly from smallholder producers.

The private sector is motivated to act.

Copra is the dried meat of mature coconuts.

70% of the total project costs were financed by the private sector partners while 30% are financed by BMZ.

THE TARGETS:

THE PHILIPPINES AND INDONESIA

3,300 FARMERS INCREASE THEIR INCOME BY 5%

1,325 FARMERS ARE CERTIFIED ACCORDING TO INTERNATIONALLY RECOGNIZED STANDARDS

825 FARMERS INCREASE THEIR INCOME THROUGH CERTIFICATION BY 10%

A MASS BALANCE OF CUSTODY FOR SUSTAINABLE CERTIFIED COCONUT OIL IS ESTABLISHED
OVERALL APPROACH

**BASELINE STUDY CONDUCTED**
Independent research institution (Kleffmann Group) commissioned

**TRAINING APPROACH “COCONUT FARMING AS A BUSINESS” DEVELOPED**
GIZ together with PCA, ATI and BAFS

**CERTIFICATION PREPARATIONS**
Selection of farmers for certification: farmers are offered to be part of the certification program of Cargill. “Enabling Certification Training” for farmers developed, internal management system for the certification by Cargill set up.

**EXTERNAL AUDIT CONDUCTED**
Rainforest Alliance compliance verified by external auditor and start of premium payments to farmers.

**CONTINUOUS IMPROVEMENT TRAINING FOR CERTIFIED FARMERS**
Further trainings on GAP and sustainability to further improve farms.

**IMPACT MEASUREMENT**
Research institutions measures impact through a representative study.

Research institutions measures impact through a representative study.
Making a Difference

Results of the Sustainable Certified Coconut Oil Production (SCNO) Project

The overall target of the Sustainable Certified Coconut Oil Production (SCNO) project is to improve the lives of smallholder coconut farmers. By investing in their capacities through trainings, the project helps them to significantly improve their farm management practices. This goes hand in hand with a maximized utilization of their farm, consequently a higher productivity which increases their income. Additionally, the sustainability premium incentivizes farmers to grow their produce in respect for nature and people.

I save part of the premium so I have funds which I can use for emergency. I also used part of it to send my two adopted grandchildren to school.

Pedro Carreon, Koronadal, South Cotabato

Overall Impact Results: Philippines

October 2019

COCONUT FARMERS INCREASED INCOME BY 5%

<table>
<thead>
<tr>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,000</td>
<td>3,763</td>
</tr>
</tbody>
</table>

COCONUT FARMERS CERTIFIED ON INTERNATIONALLY RECOGNIZED STANDARDS

<table>
<thead>
<tr>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,250</td>
<td>1,531</td>
</tr>
</tbody>
</table>

Increase in Income

Agricultural Income PHP /ha/year (2018)

- Without SCNO
- With farmer business training (SCNO)
- With farmer business training and certification (SCNO)

Increase in Productivity

- Without SCNO
- With farmer business training (SCNO)
- With farmer business training and certification (SCNO)

Increase in Income due to Direct Selling to Cargill

Where farmers sold their copra & buying price per kg.

Sustainability Premium:
Rainforest Alliance certified farmers receive a sustainability premium of 2 PHP (approx. 0,035 EUR) per kg of copra.

A mass balance chain of custody is set up. Rainforest Alliance certified coconut oil is being sold on the market.

"
THE JOURNEY

BECOMING AN ENTREPRENEUR

Farmers assess their coconut farms and identify options on how to improve their productivity. Measures are being implemented and their impacts evaluated.

By diligently recording the sales and expenses of our coconut farm, I am able to make better decisions and plan labor more efficiently. This helps me despite the plunging prices of copra.

Elson Liu, Jr., Sogod, Southern Leyte

TRAINING SET UP
Duration: 7 days
Approach: workshop
Modules: Six half day trainings; seventh day fitted to the needs of the farmers, e.g. cross farm visit or additional training session.

HOW?

01 Analyze
Where am I in the supply chain?
Before improvement can be done, the current situation must be analyzed. The coconut farmer must understand the supply chain for coconut oil and their role in it. They must grasp the market aspects they can influence and know how to do so. They must recognize the market factors they cannot influence and learn how to work with them.

02 Plan
What can I change?
Coconut farmers are enabled to analyze what limits their farm business. The tools provided, such as formulas for profit calculations, planning tools or diversification, are consciously used as aid in improving the performance. Through a case study approach, the theories are applied before the practical use on their own businesses.

03 Implement
What will I change?
The tools studied in the planning phase are put to use – a business plan is formulated. The farmers assess their own farm business by optimizing their management, and identifying their outputs and expenses. They search for market opportunities and learn how to position themselves so that profit is made. The coconut farmer develops a results-oriented and economic mindset.

04 Evaluate
What has changed?
To know if the farm business was successful, the performance of the farm business plan must be evaluated regularly and adjusted to ensure profitability. The farmers rely on their skills but know that there is a support system they can fall back on. They realized: coconut farming is a business.

WHAT MANAGEMENT SKILLS WERE ACQUIRED?

Farmers assess their coconut farms and identify options on how to improve their productivity. Measures are being implemented and their impacts evaluated.

"By diligently recording the sales and expenses of our coconut farm, I am able to make better decisions and plan labor more efficiently. This helps me despite the plunging prices of copra."

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TRAININGS:
- Tools to analyze businesses: profit and loss, cost analysis, risk analysis
- Farm planning: farm mapping, calculation of required quantities of seeds, seedlings and other inputs
- Record keeping
- Cost and performance accounting
- Conducting simple market surveys
- Money management
- Creating a farm business plan
- Evaluating Performance
- Responsible decision making

AGRICULTURAL EXTENSION WORKER (AEW)
AEWs are personnel hired by each municipality to facilitate extension services to farmers within their boundaries.

COCONUT DEVELOPMENT OFFICER* (CDO)
CDOs are personnel hired by Philippine Coconut Authority to facilitate extension services to coconut farmers.

*relevant for the Philippines
The acquired skills are put to use. This is proven by comparing pre- and post-performance, regardless of the region:

**Coconut Farming as a Business** is a training developed for the Sustainable Certified Coconut Oil Production (SCNO). National Partners together with GIZ take over major parts in designing the curriculum. In the case of the Philippines, the Philippine Coconut Authority (PCA), Agricultural Training Institute (ATI), and Bureau of Agricultural and Fisheries Standards (BAFS) were greatly involved.

Communication is key, especially in the Philippines where the language landscape is marked by numerous dialects. Conducting trainings in the local tongue is to be considered to ease the learning of coconut farmers.

The involvement of national partners helped give the farmers a better understanding of the impact that farm management practices have. They felt comfortable enough to open up and share concerns that then could be addressed.

The training on coconut farming as a business highlights relevant topics in a simple and easy-to-follow way. Through adult learning approaches constant interest of the farmers and consistent participation in training was ensured. Monitoring the impact of the trainings stand in close correlation with changes implemented in producers’ farm management practices.

Through trainings conducted in tandem by Coconut Development Officers and Agricultural Extension Workers with firsthand experience, the approaches were fitted to farmers’ needs.

After realizing that coconut farming is a business and seeing the increase of the farms output, many farmers were interested to further pursue training. The involvement of the private sector made farmers reflect on their interest in getting their production Rainforest Alliance Certified™.

**Take Aways**

**Coconut Farming as a Business Training**

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Farmers</th>
<th>Farmers Sex Disaggregation</th>
<th>No. of Trainings</th>
<th>Training hours</th>
<th>Training hours farmers’ attended</th>
<th>No. of Trainers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Leyte</td>
<td>2,790</td>
<td>M - 1,301</td>
<td>101</td>
<td>2,424</td>
<td>66,960</td>
<td>11</td>
</tr>
<tr>
<td>South Cotabato</td>
<td>973</td>
<td>M - 550</td>
<td>39</td>
<td>934</td>
<td>23,352</td>
<td>11</td>
</tr>
<tr>
<td>Sarangani</td>
<td>973</td>
<td>F - 1,489</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mindanao</td>
<td>973</td>
<td>M - 550</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Results for the Philippines: With SCNO Farmer Business Training**

- **AVERAGE ANNUAL HARVEST**
  - **OF COCONUT FARMERS WITH FARMER BUSINESS TRAINING**: 12%
  - **OF COCONUT FARMERS WITHOUT SCNO INTERVENTIONS**: 3%

- **HIGHER THAN**
  - **NUTS PER HECTARE**: 5,804 TO 6,504
  - **ANNUAL AGRICULTURAL INCOME***: ₱19,599 TO ₱22,914

* covers also intercrops

**Project Results**

- **No. of Farmers**: 2,790
- **Farmers Sex Disaggregation**: M - 1,301, F - 1,489
- **No. of Trainings**: 101
- **Training hours**: 2,424
- **Training hours farmers’ attended**: 66,960
- **No. of Trainers**: 11

**Take Aways**

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After realizing that coconut farming is a business and seeing the increase of the farms output, many farmers were interested to further pursue training. The involvement of the private sector made farmers reflect on their interest in getting their production Rainforest Alliance Certified™.
Worldwide, consumers are increasingly conscious and aware of quality and sustainability. Issues such as the safety of food due to the use of pesticides as well as environmental concerns such as the expansion of agriculture at the expense of existing forests and wildlife. Many companies respond to this demand by offering sustainably produced goods. Consumers can identify these products through certification.

After empowering coconut farmers to be entrepreneurs, Cargill, BASF and P&G take the Sustainable Certified Coconut Oil Production (SCNO) project to the next level. Cargill guides the farmers to adopt the “Guide of Sustainable Agricultural Standards” focusing on environmental, financial and social impact of agricultural production. Following these guidelines the coconut farms qualify to be Rainforest Alliance Certified™. This certification adds value to their product, meets the demands of the consumers and enables farmers to increase their income.

How to achieve “Rainforest Alliance Certified™”? The farmers were trained on the requirements of the standard. After that, their farms were evaluated. Qualified farmers can then signify their interest to Cargill to become part of the program through a letter of intent. Once approved by Cargill as so-called “group administrator” a commitment contract will be forged and farmers start implementing the sustainability standard. Cargill’s field inspectors will regularly check for compliance. They will monitor the adherence to the Rainforest Alliance standard’s criteria before the external audit is commissioned by Cargill and then being implemented by a neutral third party.

As group administrator Cargill takes on the responsibility to ensure all smallholder farms of an organization abide by the Sustainable Agricultural Standards. Cargill provides the members with technical knowledge, good practice examples as well as plans that the individuals are to follow. The aim is to help prevent further deforestation and to protect biodiversity and natural ecosystems in and around certified farms while ensuring fair labor conditions.

**The Rainforest Alliance**

The Rainforest Alliance is an international, non-profit, environmental and sustainable development organization. They work to conserve biodiversity and ensure sustainable livelihoods by transforming land use practices and consumer behavior. They follow the Guide of Sustainable Agricultural Standards. Products and productions following these standards ultimately receive the Rainforest Alliance Certified™ certification.

**1,619 FARMERS ARE RAINFOREST ALLIANCE CERTIFIED* 4,915 HECTARES OF LAND ARE RAINFOREST ALLIANCE CERTIFIED**

*in Indonesia and the Philippines

**Cargill’s Internal Management System**

To monitor the group of smallholder farms Cargill developed an Internal Inspection Plan. The farm lands of the individual members are documented including all crops and intercrops, biodiverse areas and natural resources. Changes in landscape are directly reported to Cargill to be updated in the mapping. The documentation serves as base to trace, on what level the coconut farmer complies with the standards of the Rainforest Alliance. It further is used to monitor the production chain of copra. Before harvest, the farm informs the group administrator Cargill of the harvest schedule. Cargill inspects the area of harvest and calculates and records the expected output. The coconut farmer records the actual volume of harvested and dried nuts and copra sold and reports to the group administrator. Through these measures non-compliance can be tracked and sanctions are applied as need be.

**The Role of Cargill**

The Rainforest Alliance certifies smallholder farms through group certification. A group administrator is put in charge of the organization. The group administrator is responsible that the body upholds the sustainable agricultural standards as conducted by the Rainforest Alliance. All members have a voice and participate in decision making.

In the Sustainable Certified Coconut Oil Production (SCNO) project Cargill functions as group administrator. The key role is to assist and facilitate the certification process of the Rainforest Alliance.

**Sustainability is a path and process over time.**

**Guide of Sustainable Agricultural Standards applicable to coconut farms**

- **01** Effective Planning and Management lead to enhanced productivity and profitability
- **02** Development of a plan to conserve biodiversity. It includes the restoration, protection and increase of native vegetation and aquatic ecosystems.
- **03** Development of a plan to conserve natural resources. This includes the conservation of soil and water through responsible pest and waste management.
- **04** Improve Livelihood and Human Wellbeing includes ensuring minimum wage, monitoring and prohibiting child labor and ensuring occupational health.
EXECUTIVE SUMMARY

THE RESULTS FOR THE PHILIPPINES: WITH SCNO FARMER BUSINESS TRAINING AND CERTIFICATION

**Contributor to Increased Income**

| Premium | 77% |
| Direct delivery to Cargill | 53% |
| Productivity | 31% |
| **RESECADA:** net weight deducted based on Moisture Content (MC) of the delivered copra.

**Take Aways**

- **Sustainability premium as key driver for coconut farmers’ compliance**
  - Behavior change of the farmers is by choice. The biggest motivation to adhere to sustainability criteria, is the sustainability premium, which they receive from Cargill for Rainforest Alliance Certified™ products. Coconut farmers strive to comply with criteria set in the Sustainable Agriculture Standard.
- **Farm Documentation as critical role of Cargill as Group Administrator**
  - The support system for the farmers plays a critical role. Cargill, as Group Administrator, is assisting farmers in the challenging task of farm documentation.
  - Established systems and processes of Cargill, being the Group Administrator, allow the tracking of the progress of the farmers.
- **Support services and tools to enable Rainforest Alliance Certification**
  - Simple tools allowed coconut farmers to change farm management practices. A Rainforest Alliance assessment checklist allows farmers to reflect immediately on their compliance.
  - Trainers need to be conversant about the coconut industry and agricultural and environmental issues to be able to explain the need to adjust to the requirements of the sustainability standards.
- **Additional support services to complement Cargill’s efforts**
  - For the future, the role of the Coconut Development Officers and Agricultural Extension Workers should be emphasized by aligning needs of farmers to the potential support services available by their offices and institutions.

**Farmer’s View**

The Rainforest Alliance Certified™ certification comes with many privileges. Farmers receive training and mentorship that entrusts them with skills they can apply in the future. They are aware that there is a support system provided by Cargill that they can rely on and consult with if they are unsure of actions.

The adjustments made according to the Rainforest Alliance guidelines increased productivity as well as income.

Cargill, BASF and P&G did not only create a better product, at the same time they created a market. A Rainforest Alliance Certified™ product is of high interest to Cargill and its customers. To ensure that the value added produce finds its way to them, Cargill pays a premium price for copra coming from certified farms.

In some cases where coconut farms are far from Cargill, consolidators are organized. Consolidators collect the copra from certified farmers and sell it on their behalf to Cargill. Farmers share for hauling expenses and the consolidator gets $\frac{1}{4}$ of the premium selling price per kg.

**I earned additional income from a premium which is a big help to our family to sustain our everyday lives - more food on the plate and education for our children.**

Natividad Beligolo, Maasin, Sarangani Province

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THE JOURNEY

SUSTAINING IMPROVEMENT

Rainforest Alliance certified learning sites in the Philippines

To allow good practices on farm business and management practices to be shared to the members of the local communities, selected Rainforest Alliance certified coconut farmers were showcased:

<table>
<thead>
<tr>
<th>Farm Name</th>
<th>Location</th>
<th>Key Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collado Integrated Farm</td>
<td>SOUTHERN LEYTE</td>
<td>Coconut with various fruit trees, accounting systems to track expenses and revenues, marketing of produce through various platforms</td>
</tr>
<tr>
<td>Morales Eco-Farm</td>
<td>SOUTHERN LEYTE</td>
<td>Good Agricultural Practices from coconut production to processing</td>
</tr>
<tr>
<td>Yana Integrated Farm</td>
<td>SOUTHERN LEYTE</td>
<td>Integrated coconut farm with cacao, macopa, rambutan, durian, mangosteen</td>
</tr>
</tbody>
</table>

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EXECUTIVE SUMMARY

SHORT TERM GOALS

Enhance yield from coconut palms

Higher quality of copra leads to higher selling price. Through analyzing and optimizing the moisture content of copra, farmers increase their price per kilo. They not only learn the proper drying techniques for better copra production, but also how to calculate the income effects of a better dried copra.

Typically, coconut farms do not utilize the entire land (average of 25% utilization). Through an improvement of land usage, productivity, efficiency, and economic benefits is achieved.

The economic usage of a coconut palm is 60 years average. Through information on how to receive or raise coconut seedlings and education on the ideal planting cycle and method of coconut palms, economic efficiency is optimized. Farmers further are aware of continuous support through dedicated coconut development officers.

Nourished soil accelerates crop growth. A harvest increase in number of nuts as well as in weight of copra is the results. If the soil is nurtured with organic matter, the water holding capacity of the soil rises. To achieve this, farmers are trained on what fertilizers to use and how to use them.

The farmers are introduced to the concept of predator and prey and how they can benefit from this cycle. They are knowledgeable of their pests’ natural enemies and their habitats. This way they are motivated to uphold and increase biodiversity such as use alternative pest management measures.

LONG TERM GOALS

Maximize utilization of farm land

SOLUTIONS

INTERCROPPING. The challenge is to identify the most profitable crops based on viability, availability, market size, agronomic sustainability and financial attractiveness. This is accomplished through conducting market studies and implementing the results.

Palm kernel oil is the biggest competitor of coconut oil. The increasing offer and demand of palm kernel oil negatively influences the price of coconut oil.

Understanding competitors and market development. Different market players are analyzed and findings summarized.

TAKE AWAYS

Sustainability is a journey. Revisiting the learnings of an entrepreneurial mindset and guidelines of Sustainable Agricultural Standards reinforce new habits. Coconut farmers are encouraged to discuss their insights and thoughts openly share what they are aiming to change regarding their farm business. Through cross-farm visits farmers are inspired by one another’s examples and realize the potentials of their lands. Within a few months, farmers will be able to see their fulfilled short term goals. But they aim higher and set long term goals for diversification and improvement of their farms.
Communication is key. Language barriers greatly affect the effectiveness of trainings – especially in the countryside where even basic education in the English language is absent. Conducting trainings in the local tongue is to be considered to ease the learning process of coconut farmers.

National partners as catalysts. The involvement of national partners helped a lot especially in providing a responsive training materials on coconut farming as business.

Offer meets demand. The Coconut Development Officers and Agricultural Extension Workers tandem possessing firsthand experiences through trainings conducted made approaches fitted to farmer’s needs.

Reflection to progress. After realizing that coconut farming is a business and seeing the increase of the farms output, many farmers were interested to further pursue training. The involvement of the private sector made farmers reflect on their interest in getting their production Rainforest Alliance Certified™.

Knowledge for improvement. Trainers need to create awareness about the coconut industry and agricultural and environmental issues to be able to explain the need to adjust to the market. Knowing the background and aims of the Sustainable Agricultural Standards makes it easy for farmers to comply.

Using a support system. The support system for the farmers played a critical role. Cargill, as a group administrator, assisted the farmers in the challenging tasks of farm documentation.

Sustained approach. In the future, the role of the Coconut Development Officers/ Agricultural Extension Workers should be emphasized by conducting complementary activities (e.g. market linkage, linkage to intensify the trainings.).

Track record to success. Simple tools allowed the coconut farmers to change and track their improvements. Digitizing this might also be helpful in the future. A Rainforest Alliance assessment checklist allows farmers to reflect immediately on their compliance. As last measure, following-through on farmers led to revision of current habits and a switch in mindset.

Personal benefit as motivation. Behavioral change of the farmers is by choice. The biggest motivation for them is the premium price they receive from Cargill for Rainforest Alliance Certified™ products. Therefore, they strive to comply with the guidelines of Sustainable Agricultural Standards.

Sustainability is a journey. Revisiting the learnings of an entrepreneurial mindset and guidelines of Sustainable Agricultural Standards reinforce new habits. Coconut farmers are encouraged to discuss their insights and thoughts openly share what they are aiming to change regarding their farm business.

To see is to believe. Through cross-farm visits, farmers are inspired by one another’s examples and realize the potentials of their lands. Within a few months, farmers will be able to see their fulfilled short-term goals. But they aim higher and set long term goals for diversification and improvement of their farms.

Ease of comprehension. Relevant/ easy to follow topics complemented with adult learning approach helped a lot in drawing attention and understanding of coconut farmers.

Ambassadors of Good Practices. Rainforest Alliance certified coconut farmers especially those with learning sites established serve as ambassadors to the members of the local communities. Good farm and business management practices are being shared by the Rainforest Alliance certified coconut farmers to their member communities through these learning sites.
OUTLOOK

Transforming Agriculture – deveoPPP.de Opportunities in Indonesia and the Philippines

According to the Asian Development Bank (ADB), “agribusiness is a potent way for countries to achieve almost all of their Sustainable Development Goals (SDGs).” It can help boost a country’s development with a crucial impact on all three sectors of the economy: agriculture, manufacturing, and services. It covers sub-sectors like manufacturing, manufacturing of farm machinery, manufacturing of fertilizers, food processing, packaging, etc. Also, services such as storage, transport, supermarkets, and restaurants complete the food value chain.

The sector’s relevance can further be seen in the employment opportunities it provides: In the Philippines, 13.9 million people were employed in the agriculture sector as of January 2018, accounting for more than one fourth of the national employment. In Indonesia the share is even larger, the ratio is almost one third of the employment. Although a big share is working in the agricultural sector, only a fraction is contributing to the national GDP, in 2017, not even 10% in the Philippines and 13% in Indonesia. For both archipelagos, the majority in the agricultural sector only earns daily minimum wage. In the Philippines, depending on the region, the daily minimum wage starts at 5.20 USD in 2019.

Meanwhile, Indonesia and the Philippines are facing severe domestic demand:

1. Both countries are already representing the biggest markets in terms of population in ASEAN with a joint population of around 370 million people which makes more than half of the entire ASEAN region;
2. A dynamic population growth rate of 1.1% in Indonesia and 1.5% in the Philippines in 2017 increases the demand for food and agricultural products even further;
3. An urbanization ratio in which majority lives in urban areas provides new challenges in food supply, storage, and distribution;
4. Increasing income will influence domestic demands. According to recent projections, in 2024, the GDP per capita of the Philippines will increase to around 4700 USD and in Indonesia even to 5700 USD transforming both countries to upper-middle income countries.

In addition to local trends, deeper integration in international markets can be observed. As an example, the European Union’s development tool GSP+ grants duty-free export of more than 6200 Philippine products to the EU since 2014. Particularly, the trade of agricultural and food products has been benefiting from this advantage. Just in March 2019, Indonesia and Australia signed a free trade agreement which will foster trade relations even more.

References:

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Foster trade relations even more. Just in March 2019, Indonesia and Australia signed a free trade agreement which will foster trade relations even more.

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EXECUTIVE SUMMARY

The economic integration through trade is an attractive development driver. However, in order to participate in sophisticated markets, exporters need to meet consumer expectations as well as strict requirements in various areas such as quality and safety. In case of the EU, this covers technical standards as well as sanitary and phytosanitary measures. A recent study on European consumer expectations describes the following behavior: “Many people are becoming more aware of the impact of their consumer and eating habits on the environment, climate and animal welfare. Because it can no longer be denied: the climate crisis affects the production of food, while our diet is exacerbating this crisis. Sustainability also means less food waste, more ecological packaging solutions, and more circular economy.”

Countries most vulnerable to climate change such as Indonesia and the Philippines look at serious food security threats. With reference to a report from 2017 of the Food and Agriculture Organization of the UN (FAO), levels of anthropogenic emissions of greenhouse gases are now at an historic high since recent years. Agriculture is one of the biggest contributors to greenhouse gas emissions. The report further concludes that “increases in the frequency and severity of extreme climate events, such as heat waves, droughts, floods, tropical storms and wild fires”, will negatively impact agricultural production and cause food insecurity.

To keep up with the growing demand while facing increasing quality and sustainability requirements and at the same time providing meaningful income to farmers, a transformation of the agriculture sector is necessary. The FAO report highlights resource-use efficiency and gains in resource conservation as substantial success factors, as well as R&D and implementation of smart and sustainable production systems. The governments of Indonesia and the Philippines recognize the importance to improve land and labor productivity to ensure food security. Both countries have initiatives in place to promote the strengthening of local staple food production and are eager on upgrading agricultural value chains.

In the Philippines, a new rice tariffication law was introduced with the aim to generate funds to ultimately modernize the rice production of the country. In Indonesia, the 2019 presidential campaign tackled economic inclusiveness through reforms in the agricultural sector.

In the transformation of the agricultural sector, the Sustainable Certified Coconut Oil Production (SCNO) project proves that private companies play a vital role. Cargill, BASF and Procter & Gamble were spearheading the upgrade of their own value chain. This was not only an altruistic urge. Growing consumer awareness for sustainability is a motivational force that drive a responsible business conduct. It creates a beautiful win-win effect for all stakeholders. For Cargill, SCNO meant creating economic self-sufficiency of small farm holders who are part of the company’s supply chain.

Transformation however, needs strong partners from the public sphere acting as multiplier and providing technical support. For this, develoPPP.de offers a meaningful vehicle for close cooperation between private and public sector. In the Sustainable Certified Coconut Oil Production (SCNO) project, develoPPP.de made the joint effort measurable, long-lasting and a practice to communicate. The project efforts resulted in an upgraded supply chain that:

- is directed at the consumers’ demand
- improved productivity by 26%, this means an annual increase from 66 to 75 nuts per tree
- increased annual profit of certified farmers by 47% 
- 4,000 smallholder coconut farmers significantly improved their living conditions

The agriculture sector faces complex challenges while providing attractive opportunities in both archipelagos. develoPPP.de offers a tool to meet demands of modern cooperation for a future-oriented economy.
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SCNO revolutionized the coconut sector in both the Philippines and Indonesia, spearheading the establishment of sustainable coconut supply chain, the first farm to fork project of its kind in the industry. Impacts on farmer livelihoods far surpassed expectations with notable yield improvements and increased incomes. Farmers who participated in the program now run their farms as a business maximizing benefits for their families, communities and the supply chain.

Marie Lavialle-Piot
Global Sustainability Lead Tropical Oils
Cargill

SCNO is an outstanding public-private-partnership project. It can serve as great example on how public and private efforts can create tangible benefits for smallholder farmers, at the same time supporting a market-oriented business model, which has sustainability at its core. The initiative demonstrates how impressive results can be achieved through a strong collaboration, enhancing farming systems, alleviating poverty and ultimately contributing towards the achievement of the UN Sustainable Development Goals.

Matthias Radek
Chief Advisor Development Partnerships in Agriculture
GIZ Philippines

SCNO is a source of excitement for PCA. Learnings and experiences (e.g. good working relationship of private sector and farmer) drawn from SCNO will become part of a bigger endeavour. We will include these to regular programs specifically extension development of PCA.

Roel Rosales
Administrator
Philippine Coconut Authority

At P&G, environmental sustainability is embedded in how we do business. We understand that as a global company, we have a responsibility to make the world better – through the products we create, and positive impact our Brands can have in communities worldwide. Our SCNO partnership delivered the targeted improvement for the smallholder coconut farmers in our supply chain. We look forward to continuing our participation in this program with an expanded partnership of public and private organizations.

Kuan-Chun Lee
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