
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



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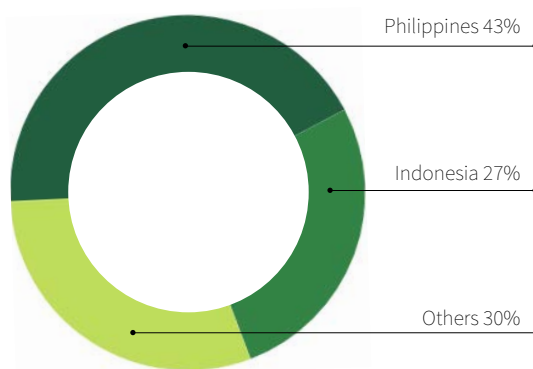
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EXECUTIVE SUMMARY

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 private sector is motivated to act.

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 fulfil 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.

Local field implementers from the Philippines include the National Coconut Research Center located at Visayas State University, VISCA Foundation for Agriculture and Rural Development (VIFARD), Notre Dame Business Resource Center (NDBRC) and Yayasan Sander Batuna in Indonesia.



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**

The Approach

Sustainable Certified Coconut Oil Production (SCNO) addresses the challenges

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.



OUTLOOK

Transforming Agriculture – development 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.¹

The sector’s relevance can further be seen in the employment opportunities it provides: In the Philippines, 10.9 million people were employed in the agriculture sector as of January 2018, accounting for more than one fourth of the national employment.² In Indonesia the share is even larger, the ratio is almost one third of the employment.³ 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 Philippines⁴ and 13% in Indonesia⁵. 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 2019.⁶

Meanwhile, Indonesia and the Philippines are facing trends spurring the 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 where majority lives in urban areas provides new challenges in food supply, storage and distribution.^{7,8}
4. Increasing income will influence domestic demands. According to recent projections, in 2024, the GDP per capita of the Philippines⁹ will increase to around 4700 USD and in Indonesia¹⁰ even to 5700 USD transforming both countries to upper-middle income countries.¹¹

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.¹² Just in March 2019, Indonesia and Australia signed a free trade agreement which will foster trade relations even more.¹³

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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.¹⁴ 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.”¹⁵

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.¹⁶ 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.¹⁷

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.¹⁸ 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.^{19, 20} 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.²¹ In Indonesia, the 2019 presidential campaign tackled economic inclusiveness through reforms in the agricultural sector.²²

In the transformation of the agricultural sector, the Sustainable Certified Coconut Oil Production (SCNO) project proves that private compa-

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nies 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 businesses a tool to meet demands of modern cooperation for a future-oriented economy.

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SCNO project is a truly entrepreneurial and out-of-the-box approach for the development towards certified sustainable coconut oil production. The joint project has proven, that certified sustainable coconut oil production is possible and improves smallholder farmer's lives. We are proud of the achievements we have made together with our partners over the last few years.

Ina Boos

Project Manager SCNO
BASF

“

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

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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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