

Review

Barriers and Benefits Arising from the Adoption of Sustainable Certification for Smallholder Oil Palm Producers in Malaysia: A Systematic Review of Literature

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Abstract: Malaysia is the world's second largest producer of palm oil, which, not unexpectedly, is one of the largest contributors to the country's GDP. However, the Malaysian palm oil industry faces numerous issues, including a boycott for imports into the European Union (EU) on the basis that Malaysia does not allegedly practice good agriculture, fails to meet sustainability standards and exploits labor rights. To overcome the situation, the Government of Malaysia is strongly committed to implementing good agricultural practices that meet international sustainability standards through sustainable certification. To facilitate the adoption of sustainable certification by smallholder palm oil producers, through a comprehensive review of the literature, this study seeks to identify the social, environmental and economic benefits derived from sustainable certification.

Keywords: sustainability certification; smallholders; palm oil; RSPO and MSPO; Malaysia



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1. Introduction

The agriculture sector plays an important role in generating income and providing a large number of employment opportunities for smallholder farmers, especially in the developing countries. However, the rapid development of the sector to meet market opportunities also has many adverse impacts on the environment including deforestation, soil degradation, soil erosion, water pollution and the loss of biodiversity [1].

Palm oil is the world's leading product in the vegetable oil industry with annual production and consumption exceeding 45.3 million tonnes, almost 60% of the global trade in vegetable oils [2]. Palm oil was first introduced to South East Asia in 1817 and has been grown commercially in Malaysia and Indonesia since 1917.

Currently, Indonesia (57%) is the world's largest palm oil producer, followed by Malaysia (26%) and Thailand (3%). As palm oil is in high demand in the Indonesian domestic market, Indonesia is also the world's largest consumer of palm oil followed by India and China. According to a senior official in the Indonesian palm oil industry, although Indonesia's production is higher than that of Malaysia's, Indonesia is unable to match the quality of Malaysian palm oil [3]. The variation in quality is believed to arise from differences in the processing of the kernels: in Indonesia, 40% of palm oil production is derived from smallholder producers who do not have a standardized system.

Although the percentage of smallholder farmers in Malaysia is rather small compared to Indonesia, the Malaysian Palm Oil Board (MPOB), together with the Malaysian Palm Oil Certification Council (MPOCC), is vigorously promoting sustainable certification among smallholder farmers. Such an effort is necessary not only to ensure that production is in accordance with established standards but also to regain the trust of foreign investors. Regrettably, the European Union (EU), one of Malaysia's largest importers, has questioned the status of the country's palm oil industry, which the EU insists does not follow the

standards for sustainable palm oil production [4]. Various issues have been raised regarding labor [5,6], the environment [7] and wage rates, among others [8]. This situation has, to some extent, led to inconsistent trends in exports and imports of Malaysian palm oil [9]. More worryingly, such a situation can have a significant negative impact on smallholder palm oil producers in Malaysia, whose household income is adversely affected [6].

According to the United Nations (UN), one of the foundations for social, environmental and economic development is sustainability [2]. Sustainable development not only contributes to the conservation of resources and the environment, but also to social and economic development. Since 2015, and the promotion of the Sustainable Development Goals (SDGs), the issue of sustainability has been highlighted to promote more responsible supply chains for agricultural commodities that comply with standards set to protect the environment [10]. Initially, such standards were adopted voluntarily, but increasingly, third party certification has become mandatory to access many international markets.

Sustainable certification for palm oil has been promoted by several organizations including the Roundtable on Sustainable Palm Oil (RSPO), which, as an organization, was established to be independent from government intervention by any one country. Indonesia, Malaysia and Thailand are among the countries that have RSPO certification, which was generally adopted before the establishment of sustainable certifications issued by their respective countries. For instance, Indonesia has since developed Indonesian Sustainable Palm Oil (ISPO), whereas Thailand has its own sustainability certification known as Thai GAP (Good Agricultural Practices). In Malaysia, a sustainability certificate for the production of palm oil products was introduced and launched by the then Prime Minister in November 2013, known as Malaysia Sustainable Palm Oil (MSPO). Since its introduction, the government of Malaysia has been vigorously promoting the scheme, which requires all palm oil growers to have MSPO certification [11].

While the governing principles of RSPO and MSPO are similar, smallholder producers in Malaysia have been encouraged to adopt MSPO, and various incentives are available to encourage its adoption. On the other hand, RSPO was established by a non-profit member organization to promote the growth of sustainable palm oil production. Under legislation, by having MSPO, smallholders are required to comply only with the laws in Malaysia, however, RSPO requires certificate holders to abide with international laws [12].

MSPO addresses the critical issues on deforestation, biodiversity loss and the conservation of High Biodiversity Value areas, which relate to climate change, planting on peat lands, fire, haze, greenhouse gas emissions, employment and work conditions, child and forced labor, communal land and land ownership rights as well as health issues. For these reasons, Malaysia, through MSPO, is actively promoting sustainable certification based on seven principles; (1) management commitment and responsibility; (2) social responsibility, health, worker safety and employment conditions; (3) compliance to legal requirements; (4) environment, natural resources, biodiversity and ecosystem services; (5) development of new plantings; (6) adoption of best practices; and (7) transparency [13].

After going through several audits and improvements, the Minister of Plantation Industries and Commodities announced the implementation of MPSO in January 2015 [14]. Since then, the Government of Malaysia has been taking action to require all palm oil producers to have MSPO certification [11]. In 2019, the Government of Malaysia made it mandatory for all smallholder palm oil producers to have MSPO certification by 1 January 2020. However, there are still many smallholders who have yet to register for the certificate. Consequently, estate owners, oil mills and smallholder producers will be fined and their license either suspended or revoked if they fail to obtain MSPO certification before 1 January 2021 [15]. According to the MPOB Director General, Dr Ahmad Parveez Ghulam Khadir, legal action can be taken against industry players including smallholders who fail to obtain MSPO certificate using Regulation 15(1) (a) of the Malaysian Palm Oil Board (Licensing) Regulation 2005 [15]. By May 2021, all organized smallholders in Malaysia had a sustainable MSPO certificate [16].

While the importance of sustainable certification is often linked with maintaining the quality of palm oil, gaining access to markets, safeguarding labor welfare, saving time and reducing costs, as well as providing a systematic management process to protect the environment, the key issue that remains is the extent to which sustainable certification benefits smallholder producers in the long term. This study aims to bridge the gap between research (as stated in the literature) and the practice of sustainability by smallholders in the Malaysian palm oil industry.

2. Methodology

A systematic review of the literature was conducted according to the PRISMA guide [17]. The method of searching for and collecting journal articles began by specifying the search scope using the PICO method (Population/Problem, Interest and Content) (Table 1). The outcomes listed were based on a set of themes established by the researchers.

Table 1. Implementation of the PICO Method.

Population/Problem	Smallholder Palm Oil Producers
Interest	Sustainability, Sustainable Certification, MSPO/RSPO Certification, Economic Benefits
Content	Southeast Asia, Malaysia
Outcome	(i) Benefits of Sustainability Certification to Malaysian Palm Oil Smallholders (ii) The Importance of Sustainability Certification to Smallholders in Malaysia; Case: Palm Oil Industry (iii) Sustainability Certification: Impacts to Palm Oil Smallholders in Malaysia

2.1. Systematic Searching Strategy

The criteria for selection required a set of processes that included identification, screening, eligibility and appraisal of quality.

2.1.1. Identification

The identification process commenced with the development of a list of keywords to generate search strings. References were drawn from several platforms such as Google Scholar, Web of Science and Scopus, as well as using the hand-picking method. As presented in Table 2, a total of 71 journal articles were collected including those that were hand-picked from Science Direct, NCBI and Index Science. The selected journal articles were published between 2008 and 2021.

Table 2. Constructing search strings.

Platform Generating Database	Search Strings
Scopus	Run 1: TITLE-ABS-KEY(("adaptation*" OR "adoption*" OR "response*" OR "production*" OR "production practices")AND("farmer*" OR "smallholder*" OR "producer*" OR "small scale farmers")AND("government" OR "governance")AND ("agriculture")AND("palm oil" OR "palm fruit*" OR "palm oil industry*" OR "sustainable palm oil")AND("certification*" AND("sustainable" OR "sustainability" OR "sustainable criteria" OR "sustainable consumption and production")AND("land ownership*" AND("limitation*" AND("attitude*" AND("knowledge*" AND("practice*" OR "good farming practice*" AND("organi*ation") AND("benefit*" OR "perceived benefit*" OR "economic benefit*" OR "developed economies")AND("labour condition*" AND("MPOB") AND("MSPO" OR "RSPO" OR "MSPO VS RSPO" OR "MSPO vs RSPO")AND("Malaysia")) Run 2: TITLE-ABS-KEY("palm oil") AND ("certification") AND ("sustainable") AND ("farmers" OR "small scale farmers") AND ("benefits"))
Google Scholar	ANY SUITABLE KEYWORDS Sustainability—Certification—Palm Oil—Smallholders—MSPO—RSPO—Government—Palm Fruit—Benefit—Malaysia

2.1.2. Screening

In this phase, the researchers omitted those articles that did not meet the established criteria. Screening took place by specifying the year of publication, language used in writing and the type or grade of the article. Duplicate articles in the database were also omitted. From the screening process, a total of 16 articles were omitted from the database, leaving 55 articles for the next stage in the process.

2.1.3. Eligibility

Eligibility is the process of identifying whether or not the title and the abstract of a journal article are relevant to the study being conducted. In this phase, for each of the 55 articles, researchers read the abstract and omitted articles that were not related to the theme of the study. A total of 18 articles were excluded as they were not based on empirical data, scientific articles or did not focus on sustainable palm oil practices or the benefits derived by smallholder producers.

2.1.4. Appraisal of Quality

Appraisal of quality was done using a mixed methods appraisal tool (MMAT) [18]. From this process, a total of 27 journal articles remained and were used in this study.

3. Findings

Based on the literature identified, several key benefits were identified for smallholder palm oil producers in Malaysia to obtain sustainable certification, especially the MSPO. Studies in Indonesia found that smallholder palm oil producers sought sustainable certification as it was recognized by their buyers and that the selling price of their outputs was higher [19].

One of the key drivers for obtaining sustainable certification was the inferred social license and thus the improved image that resulted in being a world leader in the palm oil industry. However, many smallholders were unaware or unsure about these benefits [20]. Some smallholder producers in Malaysia were found to lack the knowledge about the functionality of sustainable certification [21]. Hence, the dissemination of the knowledge regarding the benefits of sustainable certification needed to be carried out comprehensively and should always be done periodically to improve awareness of the need for certification.

In Malaysia, according to MPOB officers, a negative attitude among smallholder producers was the key constraint to their adoption of the government's MSPO certification. Apart from hiring outsiders to look after the farm, smallholder producers seldom conducted any monitoring in the application of chemical fertilizers. More worryingly, some smallholders sold their farm produce to the black market. Land clearing was also often carried out without government approval, which ultimately threatened the natural ecosystem [21].

This situation is very worrying because without awareness and cooperation from smallholder producers, it will be difficult for the government to help them become more productive and proactive.

3.1. Social Benefits of Sustainable Certification

Among the social benefits of sustainable certification was the exposure of smallholder producers to quality management principles and the knowledge they gained about the processes associated with certification. This facilitated the adoption of new technologies, an improvement in the quality management systems and job creation at a community level.

Although smallholders have been exposed to the importance of sustainable certification, many were still unclear about the actual function of MSPO certification, especially in rural areas. Smallholders were not receiving enough information about the certification process, often causing them to be confused by and less interested in sustainable certification [20]. Therefore, the Government of Malaysia, under the Ministry of Plantation Industries and Commodities (MPIC) through MPOB has channeled assistance to smallholders

through the implementation of the Smallholder Palm Oil Replanting Scheme (TSSPK), the Smallholder New Palm Oil Planting Scheme (TBSPK) and the distribution of fertilizer [22]. These actions directly encouraged smallholder producers to adopt sustainable certification.

In addition, smallholders were also introduced to new technologies. Hanafy Rita (2010) explains that the effectiveness of technology transfer is highly dependent on the ability of extension agents to transfer technology to smallholders [22]. The application of improved technology will not only benefit the country's revenue, but also directly improve the skills of smallholder producers [23].

Another social benefit gained by smallholders from sustainable certification was their ability to improve their quality management system [20,23]. Good management not only saves costs, but also saves the producers time, providing downstream customers with greater transparency. Smallholders also become more adept at socializing and communicating as well as developing a better understanding the negotiation process in agriculture [20,24]. As smallholder producers who have obtained sustainable certification usually meet more often with each other and with government, they have a greater appreciation of the market dynamics and the need for sustainable certification to meet downstream customers' expectations. In addition to increasing their knowledge, social networks become stronger, often resulting in the emergence of informal smallholder group organizations, which are established to facilitate discussion among smallholder members [20,22,23,25].

According to Lim and Biswas (2015), job creation among smallholders is one of the drivers for social sustainability [2]. The improved management of the household is also one of the social benefits obtained indirectly by smallholders, but this is seldom noted [23]. Moreover, as a result of the sustainable certification process, smallholders were observed to become more sensitive to the health and educational interests of their children [26].

Ultimately, the key social benefit derived from the sustainable development of palm oil plantations has been the improvement in the living standards for rural communities as a whole [27]. Sustainable development has not only strengthened the economy but has also played a role in poverty eradication, rural development and improving the social network of the community [26].

3.2. *Environmental Benefits of Sustainable Certification*

The importance of sustainable certification in the context of the environment is one of the key issues impacting on the international market for palm oil. Malaysia is committed to gazetting sustainable palm oil production to convince foreign investors, especially the EU, who has often raised concerns about the government's negligence towards the environment [8].

Regrettably, there are many smallholder producers who feel that they have met the environmental certification criteria [1]. Some smallholders feel that certification is not important because they have been managing palm oil plantations for a long time. If they were to obtain certification, they would need to change their way of planting and their operating procedures to comply with the standards. This can be very difficult, especially for older smallholders.

Sustainable cultivation should start from the early stages of the crop to the management of palm oil waste after harvest. According to MPOB officers, palm oil seeds provided by MPOB were not always used by some smallholders [21]. Among the ways to preserve and protect the environment is the use of organic fertilizers [10]. Smallholders with sustainable certification tend to use organic fertilizers on a much larger scale [28].

In addition, through sustainable certification, smallholders are able to adapt environmentally friendly agriculture practices through an improved knowledge of tree diversity, the practice of protecting waters through fencing, and improved reforestation practices. In addition, there is a direct improvement in the systematic use of water as well as wastewater management with sustainable methods that protect the environment [23].

However, not only does sustainable certification improve environmental remediation, it also has a direct impact on improving the quality of agricultural products [23]. The

Government of Malaysia has introduced the TUNAS (Guidance and Advice of Palm Oil) programme as a tool to increase productivity with good planting methods, which begins with technical talks and is followed by demonstrations on improved methods such as pruning [22,29]. Smallholders directly benefit from this as they are able to increase their knowledge of cultivation according to the sustainability standards set by the MSPO. Through sustainable cultivation, smallholders can reduce the adverse impact on flora and fauna and increase efforts to protect endangered species [20]. Smallholders with sustainable certification are more likely to demonstrate more significant ecosystem conservation such as reduced deforestation and conservation of biodiversity and natural ecosystems [24,25,28].

3.3. Economic Benefits and Importance of Sustainability Certification

Smallholder palm oil producers in Malaysia place great importance on the economic benefits derived from sustainable certification. This is because they believe that the cost of obtaining and practicing sustainable cultivation is higher compared to existing practices [30]. A review of certification systems for five commodities found that farmers often focus on premium prices, whereas the greatest gains are usually derived from reduced costs and improved production [31].

The economic advantages and benefits obtained by smallholders with sustainable certification include economic incentives such as improved access to markets, advantages in marketing and the opportunity to differentiate their products from competitors at an international level [20,32]. Several indicators such as profitability, cost efficiency, improved productivity and higher per capita income can be used to assess economic sustainability [2]. Moreover, Lipton (2006) reports a reduction in poverty in rural areas [22].

Nevertheless, despite showing a positive outcome, there is a relatively large gap between commodity revenue (56%) and household income (24%) [10]. This difference infers that the majority of value is captured not by the primary producer of palm oil kernels, but rather by the processors. Smallholder producers, it seems, also incur the majority of the costs associated in making changes to cropping methods, audit costs and other indirect costs [20,33].

Without doubt, the most significant economic advantage of sustainable certification is the increase in selling price [23,24,26,31,32]. However, smallholder producers may not always receive a premium price, for commodity prices are highly dependent on the current economic market conditions [34]. However, increased productivity or yield is an economic benefit enjoyed by most smallholders who have sustainable certification [24,29,32].

The Malaysian government is aware of the concerns raised by smallholders. Therefore, the government, through MPOB, has shouldered the cost of MSPO sustainability certification including document audit fees [35]. This is supported by the findings stating that the availability of government funds to obtain certification and full government support are one of the ways to provide economic benefits to smallholders [20].

3.4. Barriers to Sustainable Palm Oil Production

For large plantations, they seldom have any problems in applying for MSPO. However, for smallholders, issues such as performance improvements need to be guaranteed. The lack of human resources, the extra paperwork required and lack of time are often reported as barriers towards the adoption of quality assurance systems [36,37]. Financial impediments such as the high cost of implementation, the lack of financial resources, the high cost of certification and the lack of consultants to assist with the implementation of quality assurance systems have also been cited as barriers for smallholders to apply for sustainable certification [38].

To assist smallholders, the Government of Malaysia has been bearing the cost for smallholder producers to attain certification. It is estimated that the cost to obtain MSPO certification is MYR 40,000 (USD 9630) for each smallholder. Simultaneously, Good Agricultural Practices for sustainable oil palm production has also been provided to smallholders [11]. Group managers (GM) have been appointed as consultants to smallholders to assist them

before, during and after the certification process [39]. Although the barriers to obtaining sustainable certification are daunting, the government is committed and optimistic in their ability to overcome these barriers to support the long-term growth of the palm oil industry.

4. Discussion

The study found that with sustainable certification such as MSPO, smallholder palm oil producers can enjoy social, environmental and economic benefits.

On the social front, obtaining sustainable certification has a number of ramifications, including rural development and poverty reduction. To improve the effectiveness of regional development initiatives, the Malaysian government has established a number of institutions, including the Federal Land Development Authority (FELDA), which is directly under the Prime Minister's Department. FELDA, founded in 1956, is a government institution tasked with resettling rural poor people into newly developed areas through palm oil cultivation. The goal of this program is to address the problem of landlessness and unemployment in rural areas while also increasing rural income. Smallholders with sustainable certification will profit more since, in addition to being the key contributors to the production of Malaysian export commodities, governments have successfully lifted the average net monthly income of smallholders to a level over the poverty line through FELDA. FELDA is a member of the MSPO Technical Committee for Smallholders, which works closely with the MPOB and the MPOCC to ensure that palm oil production is sustainable. These institutions will advise smallholders throughout the planting process to ensure that they meet the required standards. This not only helps smallholders to generate better income, but also teaches them how to adhere to sustainability norms, making it easier for them to follow the recommendations by the government in improving their living standards.

It was reported that FELDA is committed to assisting more than 100,000 settlers from 286 schemes in obtaining certification for their 431,430 ha of palm oil under MSPO [40]. The MSPO gives exporters a competitive edge in ecologically sensitive countries including the EU, the United States and Australia. The Malaysian palm oil industry recently made history by exporting the first fully certified MSPO product to Japan in conjunction with the 2021 Olympics [41].

Smallholders also have a lot of options for secondary jobs, such as farming, business and small industry. These FELDA projects aided in revenue diversification, employment creation, and community social networking. As previously discussed, the government's attempts to improve smallholders' well-being by establishing sustainable certification, such as MSPO, demonstrate their commitment.

Moving on to the environmental aspects, greater production has resulted in agricultural transformation as a result of the implementation of sustainable certification. Palm oil requires around a fourth of the area that other crops such as sunflower, soybean and rapeseed to produce the same quantity of oil. This is due to the constant improvement of planting materials and Good Agricultural Practices (GAP), which must be followed in order to fulfil the sustainable certification standards. The productivity of crude palm oil (CPO) increases as a result of sustainable certification. However, smallholders are finding it difficult to raise their productivity due to lack of knowledge about best agricultural practices.

The government is determined to ensure that the palm oil industry is improved without causing environmental harm through sustainable certification. With the right government support, smallholders are relatively efficient in managing their natural resources, adopting a variety of empowering tactics such as managing waste materials and using the allowable quantities of fertilizer and pesticide. In a nutshell, sustainable certification helps smallholders to be more environmentally friendly by requiring them to follow GAP, while also increasing their education and awareness of the importance of caring for nature and the environment.

Smallholders have profited from the economic gains as well. According to previous studies, the majority of smallholders do not have access to loans, which prevents them

from investing in palm oil cultivation. They have a clear image of how to get access to markets, gain marketing benefits and differentiate their products from competitors on an international level now that they have been exposed to sustainable certification. As previously discussed, palm oil products from certified smallholders are recognized, particularly by international investors, because the manufacturing process must follow sustainable rules.

Smallholders are also more open to the idea of gaining and improving their profitability, and they have a better means of managing cost efficiency with the help of officials from MPOB. Smallholders also have full access to the current crop yield selling price. Furthermore, smallholders may obtain information from authorities in order to address their concerns.

Sustainable certification not only benefits the country, but also brings positive impacts to smallholders, organizations or related bodies and communities in Malaysia, enabling them to go further with the social benefits that have been discussed. Smallholders who have sustainable certification have a higher level of awareness of its importance as well as the environmental benefits to be gained. The importance and benefits of sustainability certification to the environment were also discussed by researchers, who claim that the government's attempts to make sustainable certification mandatory are welcomed by the community, particularly palm oil smallholders in Malaysia.

5. Conclusions

Overall, the adoption of more sustainable practices through sustainable certification are encouraging. Not only can smallholders be monitored and assisted in practicing improved cropping systems, certification can also increase their income. According to the most recent data, over 88 per cent of palm oil plantations in Malaysia were MSPO-certified [42]. However, smallholder plantations account for only 39 percent of MSPO-certified plantations. Sustainable certification provides a mechanism to demonstrate to the international community that Malaysia is committed to producing food crops without compromising environmental sustainability. The more widespread adoption of sustainable practices may also convince foreign investors to continue importing Malaysian palm oil.

Despite challenges from foreign countries such as the EU, who remain skeptical of MSPO, the government is confident that by demonstrating sustainable practices, they would embrace Malaysian palm oil exports in the future. The increasing trend of exports to countries such as India and China demonstrates the confidence importers have in Malaysian palm oil.

However, there is little literature that directly discusses the impact and challenges of sustainable certification on smallholders in Malaysia. As the data collected for this study were primarily derived through journal articles related to palm oil in general, there is a need to focus further research directly on smallholder palm oil producers in Malaysia. Utilizing a structured questionnaire, smallholder producers will be interviewed to ascertain their awareness of the importance of certification, compare the economic benefits of plantations with MSPO and RSPO sustainable certification and identify the challenges faced by smallholder palm oil producers in implementing sustainable certification. Given that the survey is limited to Malaysian palm oil smallholders, more reliable direct information is needed.

The preliminary findings of this study as well as the next phase of this research are likely to assist MPOB in developing policies for smallholders and other palm oil stakeholders. For instance, fertilizer producers, pesticide makers and even traders who offer sustainable palm oil end products will profit from this study. This is because they will be exposed to more information on the importance of sustainable agriculture in the production of high-quality, internationally certified products.

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