

Factors Influencing the Certification Process of Malaysian Sustainable Palm Oil (MSPO) during the Preparation Phase for Independent Smallholders in Malaysia

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ABSTRACT

The Malaysian Sustainable Palm Oil (MSPO) certification scheme serves as one of the platforms to address the concerns over issues related to environmental, social and economic impacts of the palm oil industry in Malaysia. Hence, MSPO certification has been mandatory for all palm oil operators, including smallholders, since 1 January 2020. In Malaysia, there are two types of smallholders, namely organised and independent. This study focussed on the independent smallholders. The purpose of the study is to investigate factors influencing the MSPO certification process during the preparation phase (MSPO pre-audit activities) for independent smallholders in Malaysia. The long duration of the MSPO certification process for independent smallholders caused difficulty for them to supply their fresh fruit bunches (FFB) to the palm oil mills. The results show several factors that influenced the certification process during the MSPO pre-audit activities, such as incomplete information and technical errors during application for MSPO certification, illiteracy rate and level of education of the smallholder, accessibility of the holding, and the lack of competent attending officers. The results obtained also show that the Good Agricultural Practices (GAP) advisory visit required a long time and was only completed within 37 days (29%), while issuance of the internal audit report took a much shorter time and could be completed within 4 days (3%). Based on this study, there appears to be a need to revise the existing guidelines in order to speed up the MSPO certification process for independent smallholders in Malaysia, and to support our commitment towards sustainability of the palm oil industry.

Keywords: MSPO, certification, independent smallholders, pre-audit, factors, palm oil.

INTRODUCTION

Palm oil is deemed to be one of the largest contributors to the gross domestic product (GDP) of Malaysia. In 2018, palm oil contributed around 38% of the agricultural sector GDP, or 2.8% of the total GDP of Malaysia (Anon, 2020). Thus, the positive development of the palm oil industry in this country is very important as the industry has become one of the main sources of income, generating employment, improving socioeconomic conditions, and raising awareness on sustainable management of the environment among the smallholders.

Globally, palm oil is the premier oil amongst the vegetable oils. However, it is rather unfortunate that it has drawn much unwarranted attention and debate among the industry players, both locally and internationally. Issues on sustainability, especially from the environmental perspective, play a major part in creating a bigger misperception and invoking criticism of the palm oil industry on a global scale (Aikanathan *et al.*, 2015). Concerns about deforestation and loss of biodiversity, which cause discrimination against palm oil, indirectly affect the socioeconomic well-being of the oil palm smallholders in Malaysia (Aszlan and Shakila, 2019). Expansion of oil palm planting is associated with the opening of new land which causes loss of biodiversity and ecological functions; in actual fact, oil palm only accounts for 0.3% of the land area used for agriculture (Basiron and Yew, 2012).

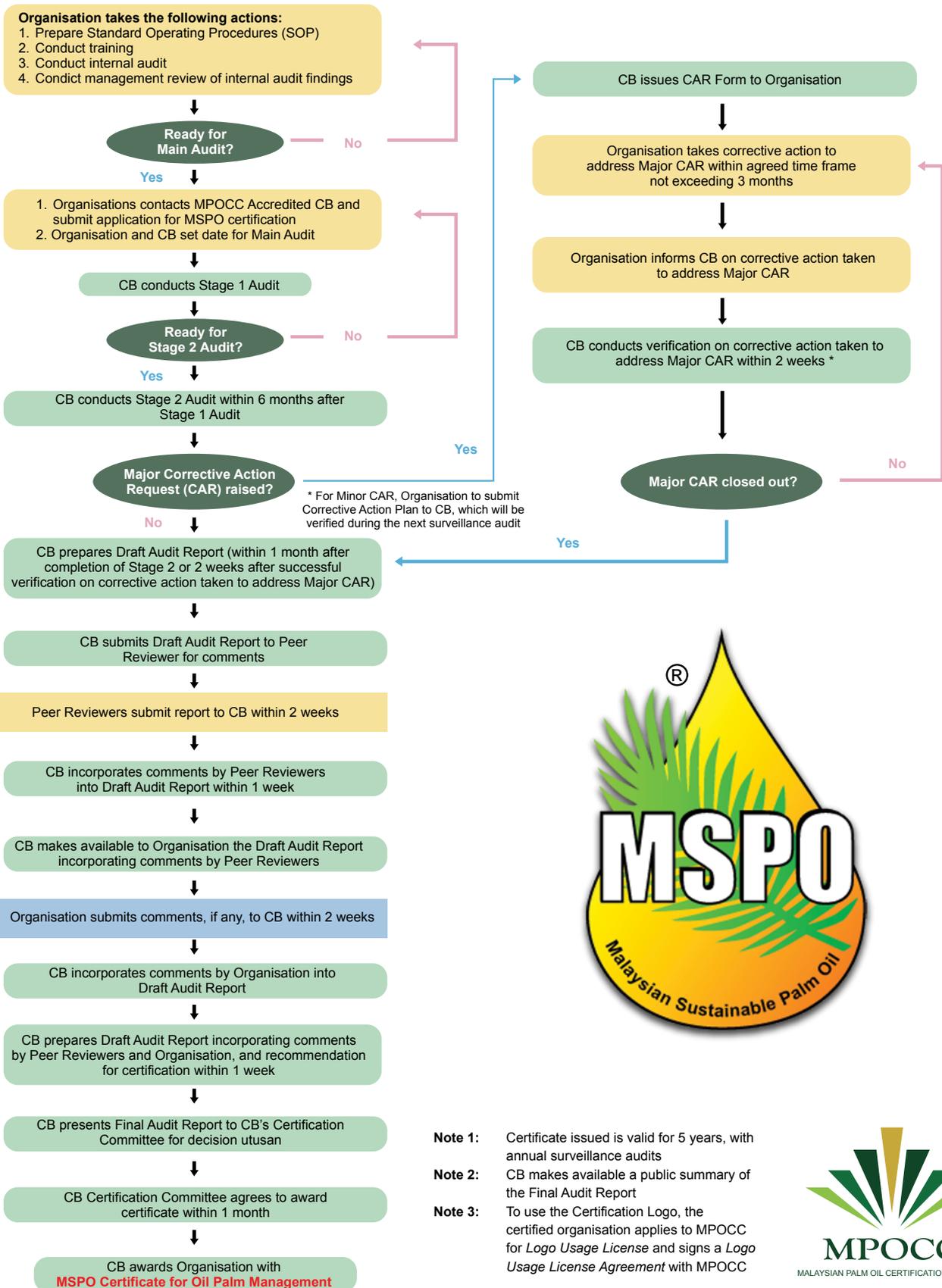
Nevertheless, Malaysia has always striven for sustainable development in the agriculture sector, especially in support of the United Nations' Sustainable Development Goals (SDGs) by 2030. As reported by Shahida *et*

al. (2018), sustainability practices through certification can motivate the palm oil industry to produce certified palm oil to cater to the demands of global markets. The collaborative efforts of the Malaysian Government and the palm oil industry through the Malaysian Palm Oil Board (MPOB) resulted in the establishment of the Malaysian Sustainable Palm Oil (MSPO) standards in 2013. These were implemented voluntarily in 2015 (MPOB, 2015) before being targeted for mandatory nationwide adoption by 31 December 2019 with effect on 1 January 2020 (Rosearnida *et al.*, 2019). The launch of the MSPO certification scheme and its associated incentives from the Government aims at attracting interest among the industry players in the certification process (Sanath and Suparyono, 2019). The principles of MSPO certification are intended to cover the general requirements for sustainability criteria with which the palm oil industry must comply (MPOB, 2020). These requirements are more feasible for the locals and are applicable to independent smallholders, organised smallholders, plantations and palm oil mills (MPOB, 2015).

Almost 40% of the oil palm area in Malaysia is owned by the smallholders (MPOB, 2015). Independent and organised smallholders are the two main categories of smallholders in Malaysia (Kushairi *et al.*, 2019). Independent smallholders are identified as individuals who own less than 100 acres (40.46 ha) of oil palm smallholdings and have irregular income (Kalsom *et al.*, 2020). According to Rosearnida *et al.* (2019), MPOB assisted independent smallholders by grouping them in the Sustainable Palm Oil Clusters (SPOC) programme. The two main components under SPOC are the Sustainable Palm Oil Growers

Co-operatives (KPSM) and Good Agricultural Practices (GAP). SPOC helps to generate a good income for smallholders through the co-operatives, by securing a good selling price for their fresh fruit bunches (FFB) by selling them in bulk. SPOC also assists the smallholders in managing their farms by implementing GAP, covering various aspects to improve FFB productivity and quality with technical inputs from extension officers, a programme better known as Tunjuk Ajar Nasihat Sawit (TUNAS). As reported by Fauziah *et al.* (2020), MSPO certification has improved the productivity of independent smallholders in Malaysia. This will overcome the smallholders' concerns in achieving sustainable palm oil production as they will be adequately prepared with the essential knowledge and improved technical skills through the SPOC programme. Auditing the MSPO certification standards is carried out by a Certification Body (CB) which is accredited by Standards Malaysia. To ensure impartiality, certification of MSPO standards has to be conducted by an independent CB (Rosearnida *et al.*, 2019). The auditing procedure, which follows the requirements of ISO 17021, coordinates all certification activities to ensure transparency throughout the system. The procedure of certification is shown in *Figure 1*.

With the mandatory implementation of MSPO starting on 1 January 2020, it is vital that all of the oil palm operators initiate the MSPO pre-audit activities prior to the certification process. It is important to recognise the existing sustainability practices where the benefits of accessing or sustaining the oil palm management system must be weighed against potential undesirable consequences. Regardless of the form that they take, the issue of implementing MSPO



- Note 1:** Certificate issued is valid for 5 years, with annual surveillance audits
- Note 2:** CB makes available a public summary of the Final Audit Report
- Note 3:** To use the Certification Logo, the certified organisation applies to MPOCC for Logo Usage License and signs a Logo Usage License Agreement with MPOCC

Legend:

- Action by Organisation
- Action by CB
- Action by Peer Reviewer

Source: MPOCC, (2019).

Figure 1. Procedure of Malaysian Sustainable Palm Oil (MSPO) certification process.

certification poses challenges in sustainable use and maintenance to meet the requirements of the international market, and may be linked to complex issues of sustainability, ethics and fairness (MPOB, 2015). Aside from that, MSPO certification can further improve traceability along the supply chain in relation to the nation's sustainability efforts. The industry's commitment to sustainable production of palm oil with minimal impact on the environment is unquestionable. The progress of MSPO certification among independent smallholders bears testimony to the seriousness shown by both the Government and the private sector towards a Greener Malaysia (Kuntom *et al.*, 2015). The oil palm industry's concern about the environment is also manifested in the pursuit towards championing sustainable development in the oil palm landscape.

Despite the discrimination against palm oil, which causes concern among the smallholders, the Malaysian Government has kept on striving to counter anti-palm oil campaigns by getting the smallholders certified in order to meet with the sustainability requirements and to potentially improve their income and livelihood. MSPO certification can mitigate the pressure from anti-palm oil lobbyists and non-government organisations (NGOs) (Shahida *et al.*, 2018). Without such an effective approach to facilitate the implementation of MSPO certification, the industry's development would have been inhibited in many ways. Therefore, the purpose of this study is to investigate factors influencing the MSPO certification process during pre-audit activities in order to simplify the certification process for independent smallholders so that they will be eligible to sell their FFB to palm oil mills. As MSPO

compliance becomes mandatory, it can become a training ground for the smallholders to improve their productivity, as well as to create awareness among the Malaysian palm oil industry stakeholders on the relevance of sustainability certification. Eventually, this will be key to the economic growth, technical advancement, competitiveness and accessibility of the palm oil industry to the international market, as well as to the rebranding Malaysian palm oil. However, relevant gaps related to the practical execution of pre-audit activities in the certification process need to be identified and require further research and development to improve MSPO certification as a desired brand in the world market in time to come.

METHODOLOGY

The study was carried out on independent smallholders who had been grouped into several clusters (based on the number of smallholders in a specific area) called Sustainable Palm Oil Clusters (SPOCs). Each cluster is manned by a MPOB-appointed TUNAS officer, who also acts as the Group Manager (GM) and gives advice to the smallholders in the cluster. There are a total of 162 SPOCs covering all the Zones in Malaysia (North, South, Central, East, Sabah and Sarawak), and of these, 60 SPOCs (covering all the Zones) were chosen as the sample for this study. The selection of SPOCs was based on the list of SPOCs that had been MSPO-certified in 2018.

Data Collection

A quantitative survey approach was conducted from August 2019 to September 2019 in all the Zones. This survey comprised all MSPO pre-audit activities (*Figure 2*). The independent smallholders

had to submit MSPO application forms to MPOB, which were then reviewed and checked for completeness and screened for eligibility by the TUNAS officers. As of December 2018, there were 255 615 independent smallholders in Malaysia (Kushairi *et al.*, 2019). Thus, by adopting the sample size determination table of Krejcie and Morgan (1970), 360 samples were stratified through random sampling amongst the registered independent smallholders with a 95% confidence level and a 5% margin of error, according to the respective SPOC Zones.

Once the application forms had been processed, a Good Agricultural Practices (GAP) advisory visit to each proposed site was conducted by the relevant TUNAS officer to ensure that the smallholding complied with GAP requirements. The TUNAS officer is responsible for guiding and monitoring all SPOC members under the supervision of the Internal Control System (ICS) to guarantee those responsibilities are carried out (Rosearnida *et al.*, 2019).

The independent smallholders were then listed in a database for auditing and registration in SPOC. All registered independent smallholders were invited for the training sessions conducted by MPOB officers. All documents needed for the initial audit were prepared by MPOB officers beforehand. The internal audit involved a review of the documents, interviews, site visits and issuance of an internal audit report as reference.

The Group Manager (GM), officers of the Sustainability Standard and Certification Unit (SSCU) and MPOB's MSPO Secretariat were responsible for completing the survey form, and for recording the time taken for each of the activities conducted in order to obtain accurate data.

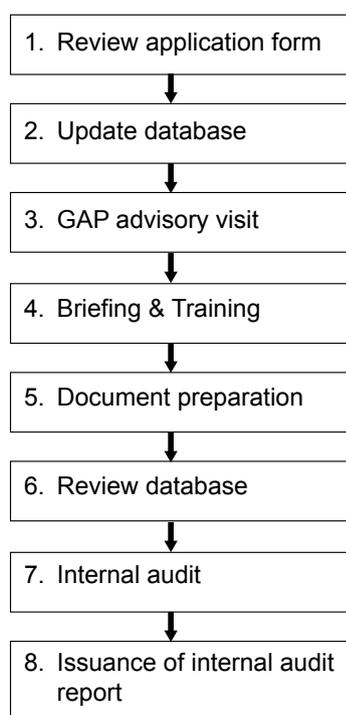


Figure 2. Malaysian Sustainable Palm Oil (MSPO) pre-audit activities.

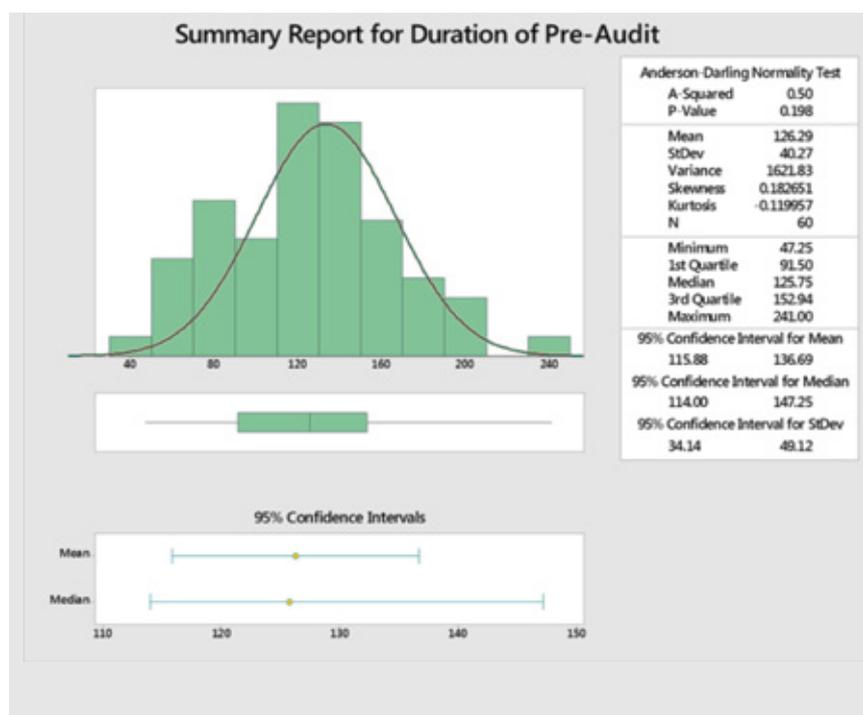


Figure 3. Summary report for the duration of MSPO pre-audit activities on independent smallholders in Malaysia.

Data were gathered from the survey accordingly, and presented as means and percentages using Microsoft Excel 2019. Normality tests were carried out using Minitab 17 software. The statistical significance level was at the 0.05 probability level.

RESULTS AND DISCUSSION

Analysis of MSPO Pre-audit Activities

For the duration of the study, a total of eight MSPO pre-audit activities were conducted in the selected SPOCs, taking 126 days to complete the task before the MSPO certification process (Figure 3). It was demonstrated that data from the sample of the population was normally distributed (0.198). Proper implementation of the MSPO pre-audit activities is very important to ensure that the independent smallholders have the capability of fulfilling the MSPO certification requirements before being audited by MSPO

auditors. The certification process can potentially impact the palm oil industry more effectively and positively from the environment and economic perspectives, especially with the independent smallholders being more knowledgeable about the sustainability concept (Kuntom *et al.*, 2015). This is in agreement with the opinion of Ismail *et al.* (2015), who reported that certification improved the smallholders' understanding of agronomic practices which eventually minimise the environmental impact on their smallholdings, while holding the potential for economic productivity.

The most time-consuming of the MSPO pre-audit activities was the GAP advisory visit to the independent smallholder's premises which required 37 days (29%), followed by the internal audit activity requiring 27 days (21%) and training activity at 19 days (15%). The least time-consuming activity was the issuance of the internal audit report, which required only 4 days

(3%). Preparation of the pre-audit document required 14 days (11%), review of the database took 9 days (9%), while both the review of application forms and updating the database required 8 days (6%) each to be completed (Figure 4).

Factors that Influenced the MSPO Certification Process based on MSPO Pre-audit Activities

Several factors influenced the MSPO certification process during the pre-audit activities. These include incomplete application forms as well as technical errors when filling the MSPO certification forms manually, high illiteracy rate and the level of education of the smallholder. During the review of the application forms and updating of the database, it was found that most of the independent smallholders were unable to follow the manual guidelines due to a high illiteracy rate and a background of lower education. This is in agreement with the findings of Lee *et al.* (2016), who reported that the

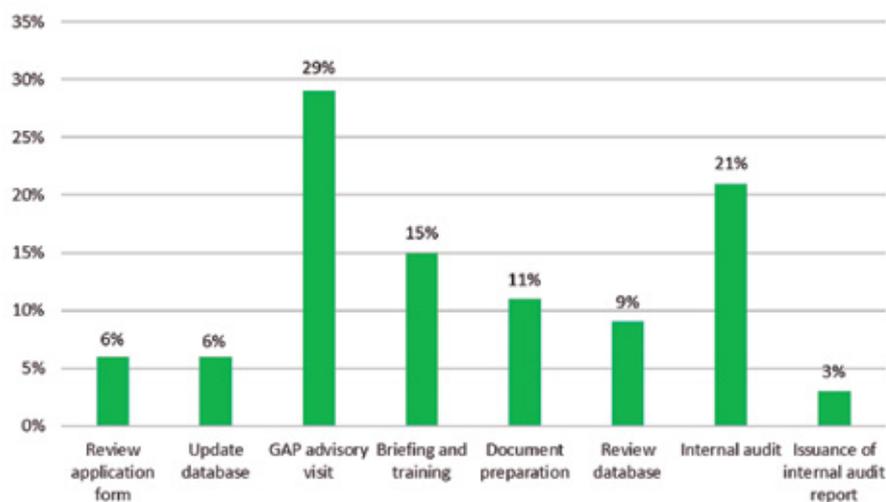


Figure 4. Percentage of time required by the activities during the preparation phase of MSPO certification of independent smallholders in Malaysia.

level of education of smallholders influenced the implementation of MSPO certification. A positive correlation was found between the smallholders' education level (0.306) and knowledge about the implementation of MSPO (0.216) and the success of the MSPO certification process (Lee *et al.*, 2016). Brandi *et al.* (2015) mentioned that the knowledge gap among independent smallholders was partly attributed to the lack of competency-based training. According to Sheilyza and Zulkifli (2020), the level of knowledge, skills and attitude among the independent smallholders could be further improved through a holistic approach, such as having programmes that focussed on knowledge, attitude and skills in oil palm cultivation. Thus, more integrated planning and inter-organisational collaboration as well as private sector involvement needed to be initiated by developing a sustainability model or index that can be drawn up for sustainable oil palm measurements. Such determinates would include the total planted area of oil palm, total harvested area, palm oil price (local delivered), agricultural employment rate and availability of arable land, to address productivity, legality and sustainability issues

surrounding smallholders (Idsert and Schoneveld, 2016).

The GAP advisory visit recorded the longest duration due to factors such as geographical barriers, accessibility, inaccurate information and the lack of capacity-building. In East Malaysia, unfavourable road and climate conditions have led to delays in the certification phase. According to Katrin *et al.* (2019), the natural climate cycle, such as droughts and associated fires, can pose a threat and an impediment to the smallholders' long-term improvement measures on their holdings, thus affecting the preparation plan of getting certified by MSPO. The high rate of occurrence of adverse weather conditions can also impact the oil palm production pattern (Nur Nadia and Syuhadatul Fatimah, 2017). Moreover, delays in the MSPO certification process among independent smallholders may be due to their location, as they are widely scattered geographically as reported by Sheilyza and Zulkifli (2020).

Internal auditing was the second longest in duration due to insufficient competent officers capable of conducting this activity. Training recorded the third longest time, mostly due to poor time management of proper programmes

scheduled in the plan. This is in synch with what Abazue *et al.* (2015) reported: that the extension officers' visit to the smallholdings required a tremendous amount of time, and that proper scheduling of the visit was needed prior to engaging with the smallholders.

Issuance of the internal audit report before the MSPO certification process took the shortest time as it could be prepared once the internal audit process was completed. For document preparation and review of the database, the time taken correlated with the timely availability of the information required for the document to be prepared, such as details on land registry, MPOB license, coordinates of the premises, as well as whether there were sufficient competent officers to conduct these activities, all of which can possibly influence the smooth flow of the certification programme. As reported by Brandi *et al.* (2015), financial, management and agronomic capacities could challenge the rate of smallholder certification. Thus, knowledge of basics and application procedures in getting certification is important to independent smallholders (Lee *et al.*, 2016).

RECOMMENDATION

To accelerate the MSPO certification process, several recommendations could therefore be adopted to improve the effectiveness of the preparation phase. Among the proposed solutions are: redesigning the application form, which should include a checklist and should be filled concurrently with training; establishing an online application system to reduce technical errors; strategising the operational plan, such as having extension officers cover smaller areas of independent smallholders as suggested by Sheilyza and Zulkifli (2020); and increasing competency training for extension officers

by incorporating technological applications, such as the Net-Map method and Geographical Information System (GIS) map analysis which has applications during fieldwork (Wisakha, 2020; Idsert and Schoneveld, 2016). The latter approach has immense potential in helping the extension officers get quick responses on location data analysis, and so indirectly improving the extension officers' competency in handling the smallholders. Moreover, there is a need to revise the standard operation procedures for the activities conducted during pre-audit, such as issuance of the submission report on the same day as closing audit so as to shorten the time required to complete the activity (Mohanaraj and Donough, 2016). This could help improve transparency and efficiency in conducting pre-audit activities prior to the certification process.

CONCLUSION

In conclusion, this study has shown that all eight activities during MSPO pre-audit are important in determining the success rate of MSPO certification in the palm oil industry. This information has the potential of helping to accelerate the implementation of MSPO certification among the smallholders, particularly the independent smallholders. However, future studies are needed to determine the effectiveness of the implementation of MSPO certification in Malaysia in advancing the palm oil industry.

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