

Report and accounts for organisations under the Climate and Forest Initiative funding scheme for civil society

2013-2015

This template for reports and accounts is to be used by organisations with agreements with Norad under the Climate and Forest Initiative funding scheme for civil society.

This template must be used for the **final report** and correspond with the signed agreement and the latest approved Project Document. The final report for the whole agreement period (2013-2015) should include results on a higher level in the results chain than previous reports (please see figure below). The final report should give a description of **achieved outcomes in terms of effects on target groups, and explain how these outcomes are expected to contribute to the intended impact.**

In cases where outcome cannot be documented by the end of the agreement period, substantial evidence of outputs should be presented with an explanation on how these will lead to the desired outcome and when.

The report should not exceed 15 pages, and please remember to submit the common indicators separately (if already submitted in March and there are no changes, you may refer to this).

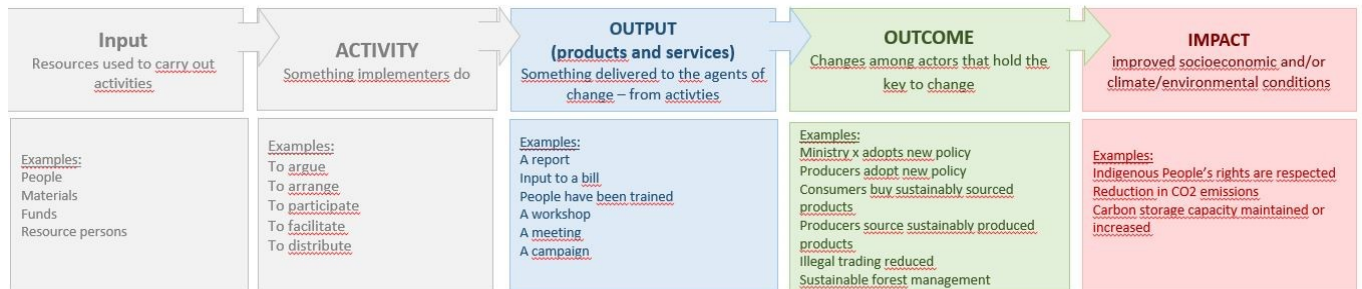
The deadline for delivering the report is 1 June 2016, unless you have agreed otherwise with your desk officer. Please submit the report electronically to postmottak@norad.no, and Cc your desk officer.

1. General Project Information:

- 1.1 Name of recipient organisation: **The Proforest Initiative on behalf of the SHARP Partnership**
- 1.2 Reporting year: **Jan 2013 – Feb 2016**
- 1.3 Agreement Number: **QZA-0451 QZA 13/0320**
- 1.4 Name of project: **Smallholder Acceleration and REDD+ Programme: SHARP**
- 1.5 Country and region in the(se) country if applicable: **South East Asia, Latin America, West and Central Africa**
- 1.6 Financial support to the project from Norad for last calendar year 2015: **NOK 6 774 876 (for 2015, including funds carried forward), NOK 14 865 600 (over full life of project)**
- 1.7 Thematic area: **Commodity supply chains of relevance to REDD+**

2 Please describe the project's progress for the whole grant period

Result chain:



With reference to the Result Chain as illustrated above, Norad requires reporting on the effect on target groups (outcomes) for this final report. If possible, we also highly appreciate reporting that reflect any results at impact level. Please remember to relate the reporting to the baselines.

Reporting of results: The achievements should be documented (for example by data on indicators or examples).

2.1 Please repeat the **project's target group(s)** and the baseline for the target group at the start of the project (from the approved project document).

Production companies: Production companies such as mills in many cases drive smallholder development and therefore have a significant impact on how it is implemented in practice, both as drivers of expansion and through their interactions as buyers of smallholder product.

Baseline: In practice, production companies have limited knowledge and systematic understanding about smallholder models that work. Their staff lack the tools and training to support responsible, low deforestation smallholder production. These companies need practical tools and guidance that can help smallholders to implement sustainability on the ground and to subsequently verify if smallholders produce responsibly.

The smallholders that supply these companies are often poorly organized and poorly linked to supply chains. They have limited access to information and support on best agricultural practices and on social and environmental best practice. Their impacts on the environment, particularly forest clearance, are significant. Their yields are often low and their incomes volatile and insecure. They have few incentives to improve and face major barriers to participating in initiatives to encourage sustainability, including certification schemes.

Supply chain companies: Many supply chain companies including traders, manufacturers, retailers and global brands purchase raw materials indirectly from smallholders. Many have made strong public commitments to responsible sourcing. In most cases this is being implemented through increasing the sourcing of raw materials that meet voluntary certification standards.

Baseline: Smallholders are facing serious challenges to meet the voluntary certification standards sought by supply chain companies, such as RSPO, RTRS and Bonsucro. Only a very limited proportion of certified palm, sugar or soy is produced by smallholders. With no short-term solutions or alternatives available, supply chain companies wanting to meet their commitments are therefore forced to either a) exclude smallholders from their supply chain or 2) opt out of certification to verify their products are responsibly sourced. However, they have no clear ideas on how to address indirect land use change, i.e. deforestation to supply markets that do not demand responsible production. There is a growing awareness within

many supply chain companies that they need to find ways to include smallholder production in their supply base, while still meeting their sustainability commitments.

Finance organisations: Financial institutions are generally risk averse and conservative and prefer to fund activities with a successful track record financially. Financial organisations will play a key role in ensuring that finance starts to flow to responsible, low deforestation smallholder production.

Baseline: Most companies are unfamiliar with new models for responsible smallholder production, which include all the costs of being environmentally and socially responsible and are therefore likely to be considered high risk and less easily funded.

2.2 Please repeat the project's **desired impact** (from the approved project document).

The project will contribute to increased participation of smallholders in sustainable supply chains resulting in decreased deforestation, increased yields and improved rural livelihoods in tropical forest countries.

2.3 Is the project still relevant for the desired impact? (Yes/No) If No, please give a short explanation.

Yes

2.4 **Main outcome(s).**

a) Please repeat the project's planned outcome(s) (effect on project's target group(s), beneficiary (-ies)) (from the approved project document).

Outcome 1: Improved models for sustainable smallholder development and management in forested landscapes

There is a general need amongst companies as well as smallholders for information on what are effective models for sustainable smallholder development as well as for practical mechanisms and general guidance on how to implement these models.

Effect on target groups:

Production companies: The effect of the project will be that production companies will be aware of suitable smallholder models and are equipped with tools and guidance on how to implement these.

Financial institutions: Finance institutions will be aware of and have confidence in models and have access to tools that ensure that finance flows preferentially into responsible smallholder production rather than unsustainable approaches, as is often the case currently.

Effect on beneficiaries:

Smallholders: Smallholders see benefits from the adoption of effective models through improved livelihoods and better yields, while minimising their impact on forests and other negative environmental and social outcomes.

Outcome 2: Integration of responsible, low-deforestation smallholder production into sustainable supply chains

The project aims to develop and field test practical approaches that define and recognise responsible smallholder production, and then to promote adoption of these approaches by supply chain companies and certification schemes.

Effect on target group:

Production companies: As smallholder certification is generally very challenging, an alternative system will offer production companies a practical approach to define and verify environmentally and socially responsible production from small farmers.

Supply chain actors: Practical tools and approaches developed by the project will be used by supply chain companies to routinely include smallholder products in their sustainable sourcing and thus overcome the current exclusion of smallholders because of non-compliance with certification requirements.

Effect on beneficiaries:

Smallholders: Acceptance of simplified approaches to managing risk together with support from companies for smallholders will help smallholders participate in sustainable supply chains by meeting the requirements of supply chains with sustainability standards and showing compliance.

Roundtables and sustainability initiatives: The development of minimum requirements for responsible smallholder production offers a stepwise solution to include smallholders in a certification process. The approach developed by the project will offer such an intermediate solution to many of the agricultural commodity initiatives (e.g. RSPO, Bonsucro, RTRS, RSB) that are finding the inclusion of smallholders very challenging and are seeking ways to include smallholders more effectively.

Outcome 3: Practical approaches to minimise deforestation in smallholder production areas

Effect on target groups:

Production companies: will have access to practical tools for everything from awareness raising among smallholder communities about the importance of protecting forests to identifying and protecting High Conservation Values areas. Such tools are essential for production companies to succeed in supporting smallholders on the ground.

Effect on beneficiaries:

Smallholders: Smallholders do not always see a need to protect forests and other areas of high biodiversity. Often this is a rational response to a lack of incentives. The project will raise awareness of the value of forests and develop incentive approaches that directly benefit smallholders.

Civil society: Protecting forests and other high conservation values is a core goal of most environmental NGOs. NGOs will be supported in delivering this goal in practice through use of the training materials and tools developed by the project.

b) Please report on all outcomes from the project document:

i. What changes have been achieved (with reference to planned project outcomes):

Outcome 1 - Improved models for sustainable smallholder development and management in forested landscapes

Outcomes

- Different models reviewed and evaluated, to capture and share existing experience of successful models for smallholder development between actors, countries and regions,
- Elaboration of improved models for sustainable smallholder development in West Africa, shared with key stakeholders notably in Liberia,
- Companies seeking to invest to develop their smallholder supply base have knowledge of successful models from other countries and regions to inform their investment decisions,
- Practical guidance available for companies on model for engagement on responsible production with independent smallholder producers, in the form of the RSS framework (ref Outcome 2),

- Options for financing sustainable smallholder development explored, shared and discussed between international stakeholders.

Result example

The Ministère de l'Agriculture et du Développement Rural in Cameroon has now incorporated provision for cooperative smallholder models within their national strategies for palm oil development and growth & employment. SHARP's facilitation of stakeholder discussions and sharing examples of successful company-smallholder working arrangements from Ghana made a significant contribution to this outcome. This paved the way for ongoing work by WWF Cameroon and local partner NGO Environmental Governance Institute to support development of such cooperatives (read more on the SHARP website¹). This is an example of better informed decision making on investment in sustainable outgrower development in pursuit of deliver better economic, social and environmental outcomes.

Outcome 2 - Integration of responsible, low-deforestation smallholder production into sustainable supply chains

Outcomes

- Development of a coherent and systematic framework for companies to work with smallholders on responsible sourcing. This Responsible Sourcing from Smallholders (RSS) framework is published and available as an open source tool with practical guidance to support implementation,
- The RSS framework has been field tested across a range of commodities, geographies and institutional set ups to demonstrate proof of concept,
- International and local production companies are actively considering RSS as a solution to operationalize their responsible sourcing policies,
- Examples of RSS being effectively integrated with existing approaches and initiatives include,
 - o Use of RSS as step wise approach to RSPO, RSB and ISCC certification,
 - o Adaptation of RSS framework by Brazilian Soy company to develop an in-house programme for engagement with independent suppliers on sustainable production practices,
 - o Application of RSS to complement Ghana Rubber Estate Ltd's existing Rubber Outgrower Plantation scheme, focussing on risk of deforestation driven by smallholder plans for expansion, and providing a retrospective assessment of land documentation procedures for GREL's smallholder suppliers,
- IDH-led Palm Oil Traceability Working Group is actively exploring the RSS framework as a means to support verification as a step beyond traceability prior to certification.

Result examples

Examples of RSS being recognised as a practical and effective tool to engage with smallholder suppliers:

- Proforest Responsible Sourcing team recommending RSS to their clients as a tool for engagement with smallholder suppliers
- Explicit reference to SHARP RSS as an existing toolset that partners should collaborate and share information on in the current TFA Indonesia Initiative strategy

¹ <http://www.sharp-partnership.org/updates/cameroon2019s-palm-oil-industry-makes-progress-in-smallholder-inclusion>

<http://www.sharp-partnership.org/updates/wwf-cameroon-and-rss>

- WWF considering RSS to create win-win partnerships between smallholders and agroindustry as part of their palm oil programme in Cameroon
- Honduran company actively engaged in RSS field testing in 2015 now entering next phase to scale up application of their investment in their smallholder suppliers
- SNV Indonesia have made RSS central to their work on all commodities under the MCA Indonesia project component on Smallholder Enterprise and Farm Systems in the Berbak landscape in Jambi, Sumatra,
- Procter & Gamble decided to invest ca.\$100K in a pilot project based on the RSS framework to develop model for supply shed intervention,
- Nestle and multiple mills in their supply chain actively considering support for landscape RSS programme with small sugar planters in Negros, Philippines,
- Two associations of independent palm oil smallholders in Honduras together with a local service company discussing a project concept with Proforest to use RSS as step wise approach to RSPO certification

Outcome 3 - Practical approaches to minimise deforestation in smallholder production areas

Outcomes

- A simplified approach developed for HCV assessment, management and monitoring for smallholders, based on identification and adoption of appropriate precautionary practices (as described on SHARP website²)
- Proof of concept for this approach was demonstrated through field testing in all 3 SHARP regions. Guidance to support implementation of this approach has been developed,
- RSPO has engaged with the development of this approach for HCV assessment and management for smallholders in low risk situations, setting up a Task Force to oversee the process,
- Common success factors were identified for payment or incentive schemes aimed at minimizing smallholder deforestation. Lessons learned from this inventory of Payment for Ecological Services (PES) models were published to inform design for future schemes and strategies.

Result example

Recognition of the simplified approach to HCV for Smallholders for treating of HCV identification and management in smallholder production landscapes

- RSPO endorsed³ the simplified High Conservation Value (HCV) approach for independent smallholders with established plantations, lowering an important barrier to certification for some smallholders,
- RSPO and WRI have committed funding to support next steps to address HCV management in situations where palm oil smallholders plan to expand their plantations, using HCV probability mapping and improved access to Global Forest Watch data sets to help Group Managers and assess and manage risk of expansion to HCVs,
- A Tanzanian NGO involved in field testing the simplified HCV approach is planning to extend its use in new partnership with smallholder honey producers, who will receive training to support sustainable management of the forests from which they derive their production.

² http://www.sharp-partnership.org/hcv_for_smallholders/practical-approaches-for-minimising-deforestation

³ <http://www.sharp-partnership.org/updates/rspo-agrees-on-hcv-approach-for-independent-smallholders>

- ii. Please report on the key indicators used to document that the desired change has occurred.

Ref Annex I – Outcomes for Project Target Groups Against Indicators of Desired Change

- iii. Please reflect on whether targets that were originally set have been achieved, and what project outputs were key to achieving them. If relevant reflect on why outputs delivered as planned did not help meet the targets

The project has delivered on all 3 planned outcomes.

Delivered outputs are mapped against planned project outputs at Annex II. All project activities contributed in some way to this success, but the key project outputs were the development of the convening of multi-stakeholder discussions (Outputs 1.1 b, 1.2 b, 2.2 a), the development of the RSS framework (Outputs 2.1 b - c, 2.2 c) and simplified HCV approach for smallholders (Output 3.1 a - c). When it became necessary to rationalize expenditure in 2015 due to a decline in the value of the grant (ref 2.5 section below) a decision was taken to prioritise project actions contributing to these outputs at the expense of those linked to Output 1.2 (Mechanisms for financing sustainable smallholder development) and Output 3.2 (Incentives to smallholders for maintaining forests).

SHARP has prompted partners to set up platforms for further discussion and shared learning. This has contributed to the launch of initiatives by large institutions and programmes like the UNDP Green Commodities Programme and Tropical Forest Alliance providing global and regional platforms for discussing a broad range of smallholder issues. With these institutions now taking the lead project effort was subsequently directed towards forging connections and contributions in such forums, rather than from staging events under a SHARP banner.

- iv. If outcomes are not yet achieved, please explain why, and in addition, how the outputs will lead to the desired outcome and when.

Although project outcomes have been achieved, industry uptake of improved models, new tools and different approaches has some way to run. Production and supply chain companies are still hesitating to make investments at the scale required to engage with smallholder supply bases that run to 10,000's. Where these supply bases overlap between companies, as they often do, greater collaboration between them via landscape or jurisdictional initiatives could allay fears of free-riding on smallholder support or leakage of deforestation. There are various new initiatives of this type within which SHARP tools and approaches could be applied to realise larger scale change. SHARP is already actively seeking ways to engage in the landscape/jurisdictional arena. In some geographies SHARP tools and approaches could serve to support transition to legal compliance, where this offers a practical vehicle for assurance to common basic standards. Again there are emerging initiatives that could in time deliver impact at scale.

Certification schemes have been criticised from some quarters for not delivering enough, both for smallholder farmers and the global environment. Some companies are now putting equal or greater emphasis on compliance with their own commitments on deforestation etc. However, for many international companies there remains a preference for some agreed standard and some form of external assurance against this. Some

certification schemes have been strongly focussed on sustainability risk in the industrial plantation sector and are only now looking to frame their role more broadly and develop strategies to cater to the needs of smallholder producers. The RSS framework could yet provide a route to certification schemes to facilitate a more equitable relationship between smallholder and buyer and a process that prompts continuous improvement in production practices.

v. Are the outcomes expected to be sustainable?

This project has contributed substantially to enhancing levels of awareness, concern, readiness to act and understanding of how to act, for companies seeking to source agricultural commodities from smallholders responsibly. It has done so by:

- Creating space for discussion on company engagement with smallholder suppliers.
- Realising a better understanding of barriers to smallholder inclusion in responsible supply chains.
- Prompting recognition of smallholder support needs.
- Convening dynamic working groups to address these issues and come up with solutions.
- Stimulating dialogue between stakeholders on models for smallholder development.

These are processes that are running beyond the life span of Norad funding. The SHARP partnership has been established as a useful platform for learning and lesson-sharing. Proforest continues to maintain a SHARP secretariat to convene partners, review and adapt tools, share lessons and promote understanding on good practice. It is private sector investment in this good practice upon which sustainability depends.

2.5 Are there any internal and/ or external factors that have affected the project in any significant way?

a) Please specify deviations from plans.

A steep decline in the value of the Norwegian Krone against the UK pound and US dollar from September 2014 onwards significantly reduced the value of SHARP's NORAD grant. Consequently, it was necessary to rationalise plans for 2015 to accommodate a decline of around 24% in financial resources in local currency terms.

The Ebola outbreak in Liberia brought SHARP activities to a halt to the schedule for developing improved models for sustainable smallholder development in that country. From mid-2014 to September 2015 it was not possible to work in the country, which left insufficient time to regain momentum for this activity.

b) Please provide a short assessment of the risks occurred

There have been evolving trends and priorities around the international agenda on sustainability in agricultural commodity production. Since the launch of this project supply chain companies have made new commitments of responsible sourcing concerning deforestation, no peat, no burning and conservation of High Carbon Stocks, with rival definitions and substantial overlap with the HCV concept. These are generally welcome developments but have necessitated ongoing adjustment of project strategy and provisions of SHARP tools and approaches to ensure they are well aligned with industry needs and expectations.

Campaigning NGOs have steered Consumer Goods Forum (CGF) companies to set ambitious time-bound targets for physical traceability of (certified) palm oil, stimulating a new focus on traceability amongst companies. Unfortunately, this has put smallholder producers at further disadvantage relative to large industrial growers. SHARP has facilitated solutions to help companies trace product back to independent smallholder plantation level, but the business case may still point towards prioritising sources from large industrial growers.

The demands of international supply chain companies (and their customers) for deforestation-free, peat-friendly production of agricultural commodities has prompted some scepticism and even antagonism in Indonesia and Malaysia. Some local political interests have perceived an infringement of sovereign interests and further threats to smallholder access to markets, with negative economic implications. National certification standards for sustainable palm oil are being promoted. Sensitivities were further exacerbated by the bad season of peat fires in Indonesia in 2015. The result has been more hesitation on the part of production companies to launch any initiative that might be perceived as contradicting national initiatives and risk further exclusion of smallholders.

The down turn in the global economy and in commodity prices (notably for palm oil) has reduced the appetite of companies to invest in new outgrower schemes and in new initiatives to address sustainability issues in existing smallholder supply bases.

The offer of public subsidies for smallholder engagement can act as a powerful trigger for company investment. But where there has been a history of such subsidies and a plausible expectation of more to follow, there will be a reluctance to make major investments in their absence. This appears to have acted as a brake for some industry actors to commit their own resources.

Within RSPO there has been resistance to the adoption of a stepwise approach to certification, which some stakeholders have perceived as diluting the standard. This has not precluded the use of the RSS framework for this purpose, but it has not encouraged uptake, and coupled with delays in adapting group certification and new planting procedures to smallholder needs, it has contributed to some missed opportunities.

- 2.6 **Cross cutting concerns.** Please report on whether the project has had any effect (positive or negative) on
- a) Corruption
 - b) Gender equality
 - c) Respect for human rights

Information shared through multi-stakeholder discussions convened by SHARP has contributed to greater transparency in agricultural supply chains and more openness and accountability between companies, governments and civil society on equitable business practice. It also facilitated consideration of models for company-smallholder working arrangements that are socially inclusive and treat farmers and local residents fairly.

The RSS framework facilitates systematic assessment and recognition of risks around labour practice and working conditions. This covers the use of child labour, forced labour, status of migrant workers and health & safety in the field for workers and family members. RSS also provides a framework for downstream supply chain actors to provide support to their smallholder suppliers for continuous improvement to mitigate such risks.

Provisions for consultation in the RSS framework provide an opportunity for women and other under-represented groups to claim a voice in identifying issues and setting priorities for support to smallholder production. In some cases, this could pay dividends by minimising potential for future conflicts within communities, particularly over use of land and water.

The project has identified the value to smallholders and artisanal processors of local, informal credit systems, such as the Buyer Advance Payment System (BAPS) in the Ghana palm oil sector. Such systems are often a critical source of working capital. BAPS plays a role creating and maintaining rural employment for women who constitute about 80% of small scale processors in the country. BAPS provides them with a competitive advantage in the purchase of palm fruit. However, to achieve significant growth in their enterprises these women need to access a mix of funding both for working capital and acquisition of capital assets. It is difficult to deliver such access while maintaining the informal structure of the BAPS in order to keep it relevant for women engaged in small scale processing.

2.9 Lessons learned. For final report, please summarize lessons learned for the whole agreement period. Both internal and external factors are relevant. What could have been done differently? How can lessons learned be incorporated in future plans? We are interested in learning based on positive and negative experiences.

For individual companies to commit effort and resources to a common initiative it must be clearly operating at a pre-commercial level, OR if it seeks to influence commercial decisions, all relevant commercial interests must buy into the initiative. SHARP has operated comfortably as a pre-commercial collaboration to develop open source tools and approaches like RSS, or models for sustainable outgrower development. But adoption and implementation of these tools or models is a commercial act. At this point a broad partnership like SHARP is less effective.

Company commitment is crucial, but they are often reluctant to make long term investments in the efficiency and sustainability of a smallholder supply base they share with other buyers. Agreements between companies, regulation within the industry and/or sharing risk through public private partnerships could provide reassurance to unlock company investment.

Responsibility for risk management in the smallholder supply base must be shared throughout the supply chain. And then all companies and smallholders involved must be able to see a clear business case, in the form of a positive net return from investment, for any process of engagement to improve production practices. Often both parties need support to assess costs, benefits and risks. A tool like RSS cannot be sold on ethical and social ideas alone.

The capacity of smallholder institutions can be a critical constraint but also a positive outcome of engagement with the framework of RSS. Companies too may need initial external support to take on the role of Implementing Entity. The availability of personal with relevant skills and knowledge is a key constraint to rapid scale up of smallholder engagement in many countries. Ultimately this capacity must be integrated within the industry and built into business models. In the near term this is an area where external investment is needed to prime the process, facilitated by regional or national focal points.

As some certification schemes move towards setting standards for support to improve farming practice there may be a convergence with RSS, which can support assessment of needs and provide a baseline from which continuous improvement is built.

The clear focus on working through the supply chain with private sector actors has been a strength for the SHARP programme. However, for a partnership like SHARP the need to interact with government on policy and institutional context has become increasingly evident.

Deforestation and management of conservation values are critical aspects of sustainable natural resource management, but to retain relevance and value any approach to responsible sourcing must consider a wider range of social and environmental impacts and allow for interventions adapted to local as well as global priorities. In mixed production

landscapes focus on a single supply chain provides a very narrow point of contact and limited leverage in the rural economy and land management choices. Hence the attraction of interventions at the level of a watershed, provincial or district government administration.

Aggregation of smallholder land managers to achieve required scale for commercial investment is a missing piece of the jigsaw to bring commercial investment to sustainable smallholder production. Often grant/philanthropic capital remains critical to unlock impact investment and then access to commercial capital. Expectations of commercial investors on return-risk balance and duration of investments not well aligned with needs and there are few off-takers willing/able to pay for long term resilience of sustainable livelihoods in sustainable landscapes.

There will be a lot more learning to gather through the coming phase of uptake of SHARP tools and approaches. As ideas come forward to adjust and evolve RSS to reflect different contexts for implementation there will be a value in coordination by a global secretariat. Moving tools like RSS 'off-paper' through a mobile phone app linked to a simple dashboard could facilitate, transfer of greater responsibility to smallholders themselves for collection of information, rapid acquisition and analysis of data and more efficient and adaptable risk and needs assessment.

3 Case/success story

3.1 Please see separate format for the result example, max 2 pages

Ref NICFI result case, submitted ahead of this final narrative report, at Annex III

4 Project's accounts for last year:

4.1 The accounts must relate to the approved budget for the year in question. All deviations (positive and/ or negative) must be clearly shown and explained.

Ref audited accounts and completed form from the accountant for last year's accounts, at Annex IV.

Date 29th July 2016

Signature *Tony Hill*

Attachments:

Annex I – Outcomes for Project Target Groups against Indicators of Desired Change

Annex II - Mapping delivered outputs against planned project outputs

Annex III – NICFI Result Case. Responsible Sourcing from Smallholders (RSS): A practical tool for smallholder inclusion in responsible supply chains

Annex IVa - Audited financial report for final reporting period Jan'15 to Feb '16

Annex IVb – Auditor's report 2015-16