Smallholders: key to building sustainable supply chains

Disclosure and support by palm oil companies assessed on SPOTT
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About SPOTT

Developed by the Zoological Society of London (ZSL), SPOTT is a free online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice. SPOTT assesses commodity producers and traders on the public disclosure of their policies, operations and commitments related to environmental, social and governance (ESG) issues. SPOTT scores tropical forestry and palm oil companies annually against over 100 sector-specific indicators to benchmark their progress over time. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

For more information, visit SPOTT.org.

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ZSL (Zoological Society of London) is an international conservation charity working to create a world where wildlife thrives. From investigating the health threats facing animals to helping people and wildlife live alongside each other, ZSL is committed to bringing wildlife back from the brink of extinction. Our work is realised through our ground-breaking science, our field conservation around the world and engaging millions of people through our two zoos, ZSL London Zoo and ZSL Whipsnade Zoo.

For more information, visit www.zsl.org.
Executive summary

• Smallholders produce 40% of the world’s palm oil. However, they often lack expertise, capacity, and resources to produce palm oil sustainably.

• More than half (60%) of companies assessed on SPOTT in 2018 excluded part of their supply base from their sustainable sourcing commitments – including some companies that did not extend their commitments to their scheme and independent smallholders.

• There is a lack of disclosure by companies on both the extent and location of smallholders within their supply chain. Only 14% of companies assessed in 2018 published maps of their scheme smallholder locations, while only approximately half provided details of their support programmes for their scheme (61%) and independent smallholders (46%).

• Unsustainable production practices on smallholder farms could have consequences for several stakeholders, impacting the ability of investors, lenders, and buyers across the supply chain to meet their sustainable sourcing commitments.

• To transform the palm oil sector, companies should extend their commitments to cover all their sourcing, disclose details of smallholders in their supply chain, and increase support for the smallholders they source from.
Introduction

Global demand for palm oil has risen rapidly in recent decades, driven by low production costs and high yields compared with other oil crops. In 2014, over 70 million tonnes of palm oil were produced globally, with 85% of global supply produced in Indonesia and Malaysia.\(^1\) Approximately 40% of the world’s palm oil is produced by smallholder farmers,\(^2\) with the remaining 60% produced by industrial-scale plantations.

The dominance of smallholders varies by country, with smallholders accounting for 40% of land under oil palm cultivation in Indonesia and Malaysia – whereas in Cameroon, Thailand, Ghana and Nigeria, smallholders account for 70-94% of land under cultivation.\(^1\) Smallholders often have limited expertise, capacity, resources, access to information and support services to produce palm oil sustainably or to be able to demonstrate that the fresh fruit bunches (FFB) they produce meet standards demanded by buyers.

Oil palm cultivation is an important contributor to the livelihoods of many people living within rural areas; however, the expansion of oil palm plantations has been linked to serious environmental damage and human rights abuses.\(^3,4\) Smallholders are essential parts of global palm oil supply chains and collectively supply large volumes of oil to several companies. Many of these companies have adopted stringent palm oil sourcing policies committing to social and environmental best practices, including No Deforestation, No Peat, and No Exploitation (NDPE) policies, many of which include commitments to support smallholders in their supply chain. Therefore, it is crucial that the smallholders who make a living from palm oil have access to sufficient support to produce palm oil sustainably if sustainable palm oil is to become the norm.

This report provides an overview of how palm oil producers and traders assessed on SPOTT\(^5\) address smallholder issues in their operations. This includes how they incorporate smallholders into their commitments, disclose information on the smallholders they source from, and provide details on the levels of support they provide to smallholders in their supply chains. Additionally, recommendations on how companies can better support and integrate smallholders into sustainable palm oil supply chains are provided.

Defining smallholders

Smallholders, as defined by the Roundtable on Sustainable Palm Oil (RSPO), are those managing palm oil plantations of 50 hectares or less (sometimes larger or smaller to align with National Interpretations – e.g. 75 ha or less in Ecuador). They can operate either independently or in collaboration with companies (Figure 1). The RSPO distinguishes two types of smallholders: scheme smallholders and independent smallholders.\(^6\)

**Scheme smallholders:** Do not have enforceable decision-making power on how they operate their land and their production practices, and/or the freedom to choose how they use their land, the types of crops to plant, and how they manage them.

**Independent smallholders:** All other smallholders not classified as scheme smallholders. They have the freedom to choose how they use and manage their land including the types of crops to plant.

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\(^1\) Meijaard, E. et al. (eds.). 2018. Oil palm and biodiversity. A situation analysis by the IUCN Oil Palm Task Force. IUCN Oil Palm Task Force Gland, Switzerland: IUCN.
Methodology

SPOTT assesses palm oil producers and traders on the public disclosure of their policies, operations and commitments related to environmental, social and governance (ESG) issues. Seventy palm oil companies were assessed on SPOTT in 2018,\(^7\) with a reported land area of over nine million hectares. Companies on SPOTT are assessed annually against over 100 sector-specific indicators using publicly available information to benchmark their progress over time.\(^8\) This analysis draws upon data from SPOTT assessments conducted by ZSL in November 2018. The data used is primarily from the 2018 assessments, but where possible trends from the 2017 assessments are also included in the analysis.

\(^7\) Twenty new companies were added to SPOTT in 2018; 50 companies were assessed in 2017.

Findings

Prevalence of comprehensive corporate commitments

In examining company commitments in the 2018 SPOTT assessments, namely those related to deforestation, high conservation value (HCV) assessments, development on peat, no burning, and human rights, an average of 40% of assessed companies had comprehensive commitments that covered all their sourcing – an increase of 10% from 20179 (Figure 2).

While this does not mean that the remaining 60% of companies did not extend their commitments to their smallholder supply base, it does mean that they excluded part of their supply base from their commitments (whether that be scheme and/or independent smallholders, particular geographies, products, etc.).

Landbank and maps of scheme smallholders

Palm oil companies are entrusted as stewards of vast areas of land, yet there is a lack of transparency around the full extent and locations of land under a company’s management. This inhibits accountability and masks environmental and social risks.10

Of the 58 companies assessed on SPOTT in 2018 that have scheme smallholders, 41 companies (71%) reported a planted area for their scheme smallholders – an increase of 10% from June 2017 (Figure 3). The total area companies reported under scheme smallholders in 2018 was over 900,000 ha, equivalent to an area 3.5 times the size of Luxembourg. Although it is encouraging to see the increase in reporting of planted area for scheme smallholders, there are still 11 companies that did not disclose any land area for their scheme smallholders.

Knowing where companies source from is critical to effectively implement and verify compliance with corporate commitments and legal requirements. This includes having oversight of the scheme smallholders in one’s supply base, including an understanding of the locations where they source from.

Only eight companies assessed on SPOTT that have scheme smallholders published maps of their locations, either on their own or the RSPO’s website. While 47 companies did not score points against this indicator, some companies did provide feedback that they submitted these maps to the RSPO; however, the GeoRSPO portal12 does not distinguish scheme smallholder plantations from industrial plantations and thus company submissions could not be verified.

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9 50 companies were assessed on SPOTT in 2017 and the percentage change figure only includes changes in commitments of companies that were assessed in both 2017 and 2018. Information on whether human rights commitments apply to scheme smallholders and independent suppliers was not collected in 2017.


11 Partial points are awarded to companies when the data they report is over 2 years old, does not cover a company’s known scope of operations, or the figure is complicated to calculate.

Smallholder support schemes

While not typically required by law, providing support and training to both independent and scheme smallholders in a company’s supply base can help companies ensure that the FFB they source were produced in compliance with their policies, and helps ensure an efficient and legal supply chain.\(^\text{13}\)

Approximately 60% of companies (35) that have scheme smallholders provided details of their scheme smallholder support programmes.\(^\text{14}\) This is comparable to June 2017, where 27 of 44 companies with scheme smallholders (61%) reported details of their support programmes. Additionally, only 15 companies reported the number of scheme smallholders (>247,000) involved in their programme in 2018, while 33 companies did not report any figures.

Reporting by companies on support programmes for independent smallholders is much lower. Only 26 of 56 companies (46%) with independent smallholders reported details of their support programmes.\(^\text{15}\) This is lower than the proportion of companies reporting in June 2017, with 24 of 41 companies (59%) reporting details of their independent smallholder support programmes. Additionally, only 11 companies reported the number of independent smallholders (>16,000) involved in their programme in 2018, while 39 companies did not report any figures.

This lack of transparency inhibits third parties’ ability to assess the significance and adequacy of existing smallholder programmes.

Smallholder certification

Effective implementation of certification standards requires significant financial, technical, and human capital. This presents challenges particularly for smallholders who lack both financial support and the knowledge to comply with certification standards. Currently only 311,225 ha of smallholder production is RSPO certified,\(^\text{16}\) representing less than 1% of the global land area under cultivation.

As of November 2018, only 22 of 58 companies with scheme smallholders (38%) assessed on SPOTT had already achieved or have a time-bound plan to achieve 100% RSPO certification of their scheme smallholders within five years (by 2023). Of the remaining 36 companies, 9 (25%) have time-bound commitments to achieve 100% RSPO certification for their estates but do not extend their commitments to cover their scheme smallholders.

The uptake of RSPO certification by SPOTT companies is currently limited, with few companies having achieved >75% RSPO certification. Presently, only five of 58 companies have certified >75% of their scheme smallholders (based on area). This is surprisingly low given that 22 companies have time-bound plans to certify their scheme smallholders within five years.

The adoption of two resolutions on smallholders in the 2018 RSPO General Assembly should address some of the issues that smallholders currently face in getting certified. This includes a commitment by the RSPO to extend the mandate for the Smallholder Interim Group to develop a simplified standard for independent smallholders that is expected to be approved in late 2019.
Conclusions and recommendations

Effective engagement with and support for both independent and scheme smallholders is important to ensure their participation in global palm oil markets. Less than half (40%) of corporate sustainability policies cover 100% of a company’s sourcing, with smallholders among those that have been excluded from corporate commitments.

Given that smallholders account for 40% of global production, and with the expansion of palm oil into Africa and Latin America where smallholders are the more prominent producers, it is increasingly important to ensure that they are supported. To increase the uptake of social and environmental best practices among smallholders, we recommend that companies prioritise the following three areas:

1. Developing more comprehensive commitments

As a first step, all companies – regardless of their location in the supply chain – should ensure that their sustainability commitments apply equally across all their sourcing, including to their scheme smallholders and independent suppliers (including independent smallholders).

2. Reporting on company smallholder supply base

Companies should publicly report the area of scheme smallholder plantations under their management and publish georeferenced maps showing the boundaries of their scheme smallholder plantations. This information is necessary for companies to implement and verify compliance with their commitments and identify potential high-risk sourcing areas. This information is also important for stakeholders to be able to hold companies accountable to their commitments.

In recognising that it is much more challenging for companies to map out their independent smallholder supply base, companies should also report the area of independent smallholder plantations and publish georeferenced maps of plantation boundaries where there are close and stable relationships between supplying mills and independent smallholders. In instances where the supply base is unstable and mediated through multiple dealers and primary processors, companies should prioritise mapping and land use planning that is coordinated at the landscape level.

Companies should also publish the percentage of their supply base that is sourced from scheme and independent smallholders. This information helps to provide an indication of the extent of a company’s footprint that is attributed to smallholders. Publishing this information alongside the number of scheme and independent smallholders they support and the types of support offered also allows for the robustness of company support programmes to be assessed.

3. Supporting smallholders companies source from

Increased attention is needed to ensure that smallholders are included in company supply chains – reversing increasing trends for companies to source from larger and fewer suppliers to more efficiently meet their sustainable sourcing commitments. This includes incorporating both scheme and independent smallholders into company sourcing strategies and providing them with adequate support to comply with company sustainability policies.

Companies should provide financial and technical assistance to scheme and independent smallholders they source from to improve social and environmental practices on smallholder plantations and facilitate compliance with their sustainability commitments. This includes providing training on Best Management Practices, health and safety, and financial management, as well as assistance in securing land tenure and gaining access to markets. Company support programmes can also include technical and financial assistance to become certified, where there is a strong business case for smallholders to become certified.

Given that independent smallholders face the highest barriers to participation in global supply chains, there is an urgent need for strong leadership by companies to include more independent smallholders in their sourcing strategies. Once the new RSPO standard is adopted, companies should continue to support independent smallholders to become certified under the new standard.
Smallholders: key to building sustainable supply chains
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