Not forgetting the independent smallholders

BY TAN ZHAI YUN

A sad truth, associate professor of operations and supply chain management at the Center for Sustainable Smallholders (CSS) at the Asia School of Business (ASB), has always been interested in supply chains. He built a network in India, where many of his family members are farmers of sugarcane and paddy. As farmers, they often find their incomes dependent on the middlemen who connect farmers to the market. After 12 years working in the industry and obtaining his PhD, Asad accepted the offer to join the MT Malaysia Supply Chain Management programme at ASB as its director, one of the consulting projects involving mapping the palm oil supply chain for a multinational corporation (MNC) in Malaysia.

More than a third of the foodstock came from very small suppliers or Independent Smallholders (ISS), aggregated by layers of middlemen. This kick-started Asad’s work in helping farmers in Johor—the state with the highest number of smallholders—adopt sustainability and traceability. This is especially relevant now as the European Union Delegation Regulation and shifting consumer preferences are threatening the demand for palm oil. Smallholders, with their limited resources, are the most vulnerable players in the supply chain.

When Asad started work here, it was 2014, and sustainable palm oil certification like the Malaysian Sustainable Palm Oil (MPO) was not mandatory and the certification on sustainable Palm Oil (RSPO) did not have a dedicated certification standard for ISS.

“Wherever we talk about smallholders, most of the time, we’re only talking about the smallholder scheme farmers and not the ISS. They (the farmer) are a bit more organised,” says Asad.

Still, smallholders make up 12.4% of smallholder hectarage in the whole country, according to the Malaysian Palm Oil Board in 2018.

“At the time, no one was willing to even begin to ask them (ISS), ‘How do you source? Where do you procure from? What are your practices?’”

This posed a risk for MNCs that want to adopt sustainability throughout their supply chain. It was always easy, in the name of sustainability, to remove the most vulnerable or resilient part of the supply chain, which is the independent smallholder, and use that same amount of sourcing from a bigger player,” says Asad.

In the absence of sustainability standards that applied to smallholders then, Asad began his work with a group of Johor-based ISS farmers who supply to the MNC concerned. His team created sustainability accreditations for the farmers and middlemen, based on the criteria of other sustainability palm oil certifications.

“The small producers in Johor that we are dealing with (manage) roughly one and a quarter hectare on average. RSPO defines smallholders as those who manage less than 4ha, and RSPO defines the same as managing up to 5ha, meaning these farmers whom we are working with are super small,” says Asad.

“We have a systemic issue in Malaysia, where the mills are big. So, there’s a mismatch in that the big mills cannot control the small, disconnected and independent smallholder farmers, which generates a lot of middlemen and aggregators across the supply chain. So, we have the super dealers who hold accounts at the mills, under which are collection centres that receive supply from hundreds of small farmers.”

This makes traceability of palm oil extremely difficult. Do all the farmers who contribute to that one tonne of palm oil legally own the land or adopt sustainable practices? This was a challenge for Asad’s team.

“The message was, sooner or later, if we don’t incorporate traceability, the time will come when we will be forced to trace and provide evidence, it will be a lot of work, so doing some homework upfront helps,” says Asad.

GAINING TRUST

Why would the smallholders care about sustainability, if there are so far down the supply chain? The aggregators, super dealers and mills may not be concerned about sourcing sustainable palm oil or paying a premium for it.

This has changed, of course, since RSPO released its HTST Standard in 2018 and introduced RSPO Credits. Smallholders who meet the standards sell their physical supply to their usual sources, but they can also sell credits on RSPO’s system to earn additional income.

Meanwhile, buyers who find it difficult to source only sustainable palm oil can purchase these credits as an offset or to support smallholders.

After this system was introduced, Asad’s team, based in Kuala Lumpur and Pontian, worked to help farmers benefit from it. “At first, we had to gain their trust because we were like outsiders coming in. Second, we had to establish that we weren’t asking for anything too drastic. We don’t want things like slash and burn coming from them, we want to ensure they carry out replanting when they collect the fruit, and the chemicals used must be properly disposed,” says Asad.

It is not just about sustainability. The CSS team also introduced a yield information programme for the farmers. The yield of 911 in Malaysia is almost 50% below the national average, says Asad. Lack of good agricultural practices and lack of resources are contributing factors. For instance, the farmers don’t have enough harvesters when the fruits are ripe, and they have a habit of not using enough fertilizer.

“These farmers have good general practices, examples of which include how to put their tendu leaves after harvesting to collect them and deciding whether they should stack it up.”

NOW, FOR SUSTAINABILITY

But Asad knew that getting the ISS to apply for the RSPO Smallholder Standard was a big ask, because it requires a lot of documentation and verification. At that level, the farmers may be too busy to locate their land title even though they have been working on the land for generations. After that task is certified, the farmers have to log onto RSPO’s platform to sell credits. It is a real time process and the farmers require much assistance.

“The farmers require a lot of facilitation and once we go away, they would not know how to maintain the certificate. That’s our feedback to RSPO,” says Asad. As a solution, CSS has set up a programme to work on traceability and adopt the smallholder certification programmes. The methodology is then shared with the whole industry. After that, they become model farmers to others and continue improving their systems.

This continued improvement is evidenced by Asad. Getting the right certifications will help but it does not mean the farmers will be immune from being banned due to allegations of human rights violations or defamation.

They’ll have to keep improving, he says, and not be reactive to whatever new regulation is emerging. In 2020, a group of ISS under the supply chain of Baling Jaya Sdn Bhd and the Permatang Tanjung Laut Naga Lestari Negri Johor, supported by CSS A year later, it became the first Malaysian ISS association to achieve the RSPO HTST Standard certification. The income received from RSPO Credits after achieving the certification does not cover the cost incurred in the short term, which includes training, audit and association fees. However, the gains the costs does reduce over subsequent years as farmers learn to manage their certification system better.

In a report published last November, CSS produced 477 certified ISSs, estimated to save 17 hectares of farming land and increased 96% in yields for eight intervention farms (compared to control farms), among other achievement in increasing the sustainability and responsible use of first-class pesticides and herbicides.

Last June, CSS struck a five-year partnership with Singapore-based Temasek Foundation to expand its programme. This funding has also enabled setting up collection centres and more farmers.

“You are trying to build the trust of farmers in these collection centres and see them fully certified, modernised and fully traceable,” he says.

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