

# Not forgetting the independent smallholders

BY TAN ZHAI YUN

**A**sad Ata, associate professor of operations and supply chain management and director of the Center for Sustainable Small-owners (CSS) at the Asia School of Business (ASB), has always been interested in supply chains.

He hails from the north of India, where many of his family members are farmers of sugar cane and paddy. As farmers, they often find their revenues 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 MIT Malaysia Supply Chain Management programme at ASB as its director. One of the consulting projects involved mapping the palm oil supply chain for a multinational corporation (MNC) in Malaysia.

More than a third of the feedstock came from very small suppliers or independent smallholders (ISH), 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 Deforestation 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 certifications like the Malaysian Sustainable Palm Oil (MSPO) were not mandatory and the Roundtable on Sustainable Palm Oil (RSPO) did not have a dedicated certification standard for ISH.

"Whenever we talk about smallholders, most of the time, we're only talking about the smallholder scheme farmers and not the ISH. They (the former) are a bit more organised," says Asad.

ISH land makes up 14.4% of smallholder hectareage in the whole country, according to the Malaysian Palm Oil Board in 2022.

"At the time, no one was willing to even begin to ask them (ISH), '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 messier [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 ISH farmers who supply to the MNC concerned. His team created sustainability scorecards for the farmers and collection centres, 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. MSPO defines smallholders as those who manage less than 40ha, and RSPO defines the same as managing up to 50ha, 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 entertain 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 they are so far down the supply chain? The aggregators, super dealers and mills may not be concerned about sourcing sustainable palm oil or pay a premium for it.

This has changed, of course, since RSPO released its ISH Standard in 2019 and introduced RSPO Credits. Smallholders who meet the standards sell their physical supply to their usual sources, but they can



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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 like an offset or to support smallholders.

After this system was introduced, Asad's team, based in Batu Pahat and Pontian, worked to help the 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 were not asking for anything [too drastic]. We don't want things like slash and burn, [and we want to] ensure they carry out replanting when they collect the fruit, and the chemicals used must be properly disposed of," says Asad.

It is not just about sustainability. The CSS team also introduced a yield intensification programme for the farmers.

The yield of ISH 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 fertiliser.

The farmers learnt good agricultural practices, examples of which include how to put their fronds after harvest to compost and deciding where they should stack it up.

## NOW, FOR SUSTAINABILITY

But Asad knew that getting the ISH to apply for the RSPO Smallholder Standards was a big ask, because it requires a lot of documentation and verification. At that level, the farmers may be unable to locate their land title even though they have been working on the land for generations. After they are certified, the farmers have to log onto RSPO's platform to sell credits. It is a really rigorous 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.

Now, when CSS onboarded farmers, it requires them to work on traceability and adopt the smallholder certification. The certified farmers then join the yield intensification programme. After that, they become model farmers to others and continue improving their systems.

This continual improvement is emphasised by Asad. Getting the right certifications will help but it does not mean the farmers will be immune from bans due to allegations of human rights violations or deforestation.

They'll have to keep improving, he says, and not be reactive to whatever new regulation is emerging.

In 2020, a group of ISH under the supply chain of Binaan Jaya Sdn Bhd formed the Pertubuhan Tani Niaga Lestari Negeri Johor, supported by CSS. A year later, it became the first Malaysian ISH association to achieve the RSPO ISH Standard 2019 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, Asad says the cost does reduce over subsequent years as farmers learn to manage their certification status better.

In a report published last November, CSS produced 407 certified ISHs, established 177 learning farms and increased 39% in yields for eight intervention farms (compared to control farms), among other achievements on increasing traceability and restricting 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 will go towards supporting collection centres and more farmers.

"We are trying to reach all the active farmers in these collection centres and see them fully certified, modernised and fully traceable," he says.



The CSS team working with smallholder farmers in Johor