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Smallholder inclusivity: sustainable
procurement practices for
sustainable oil palm

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Smallholder inclusivity: sustainable procurement practices for sustainable oil palm

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Executive summary

Smallholder farmers are fundamental to the resilience of the global palm oil market, but they are facing significant challenges. Pressure from the impacts of climate change, market volatility and supply chain requirements mean that smallholders' livelihoods are at risk. Changing market dynamics with a shrinking EU market and growing import markets, such as India and China, is impacting the actions of supply chains actors and exacerbating the challenges for smallholders.

The aim of this report is to further explore how procurement practices of companies in palm oil supply chains can become more inclusive of smallholders. Building on a growing body of evidence, including the Palm oil Barometer, 2025, this report explores ways to further include smallholders in procurement processes, providing a fair income and better access to markets.

Global palm oil markets are shifting with the EU market experiencing a decline in palm oil demand, while India and China continue to grow. India is now the second largest consumer of palm oil, fuelled by consumer demand for affordable edible oils; it is dependent on imports from Malaysia and Indonesia. Indian demand is reportedly less stringent than the EU market, with limited investment in traceability, transparency and smallholder engagement, beyond that with domestic producers.

Smallholders are not a homogenous group - considerable nuance must be given to what constitutes a smallholder, how they are defined and thus how to include them.

Smallholders are often defined based on their size and as either independent or scheme/plasma smallholders. In reality, it is more complex and nuanced across, for example, plantation size, ownership structure of land, and use of external labour. It also differs between countries. This variation must be more closely considered as the industry explores how best to include smallholders.

Inclusion of smallholders must consider the crucial role of other actors in the supply chain – namely dealers. Dealers play an integral role in providing the physical link between smallholders and mills but are often not part of the conversation when discussing smallholder inclusion. Dealers could be utilised as catalysers for smallholder inclusion as they have leverage to reach more farmers and spread knowledge and farm inputs. Dealers play an essential role in the supply base and whilst it is challenging to reflect this in a procurement policy, it is important that they are acknowledged and supported.

The concept of smallholder inclusivity is multi-dimensional and is not just about simply buying from smallholders or a simple tick box exercise. Inclusion must be long-term and sustainable, ensuring that farmers and communities have access to resources, markets, and opportunities essential for their growth and resilience. The Palm Oil Barometer considers smallholder inclusivity through ownership, voice, risk and reward.

Understanding the varying levels of visibility and therefore influence actors have at different stages of the supply chain is imperative. This consequently impacts the ability of actors to stipulate smallholder inclusion within a procurement policy. For example, upstream companies have greater visibility and connection to producers, and offer direct support to smallholders – however, such support is challenging to provide in indirect



supply chains without direct control over mills. Some downstream companies are acting through financial support of projects on the ground but generally lack visibility to origin and a direct connection to their supply base, which can limit their level of influence. However, where cross supply chain collaboration can occur, examples of positive influence on smallholder inclusion exist.

Smallholder inclusion is often not a priority for many downstream companies although their role in resilient supply chains is recognised. While intention exists, practical application of smallholder inclusivity is less of a priority in decision making than other purchasing criteria. Companies sourcing from smallholders base procurement decisions on a range of factors including cost, quality, regulatory requirements and voluntary commitments. These requirements vary considerably across different import markets – the EU has stronger requirements on traceability and certification, whereas Indian importers reportedly have less stringent requirements particularly for imports.

Recommendations for inclusive procurement practices vary across different geographic contexts and the supply chain and include:

- Broaden the scope of smallholder inclusivity to look beyond their own supply chain at the wider sourcing area. This can help smallholder inclusion to become more accessible to companies with limited visibility to origin. Additionally, by broadening this concept the acknowledgement of the role of dealers is enabled.
- Support cross collaborative projects on the ground at a landscape or regional level. This can help generate value for smallholders and downstream actors while encouraging upstream actors to participate in these projects, fostering stronger connection and value creation across the supply chain.
- Strengthen understanding and raise awareness of smallholders and their importance in long term resilience of supply, to meet food security objectives, across all supply chains in the EU and in particular in India where food security is a prominent topic of concern.
- Support use and uptake of certification – RSPO, ISPO, MSPO for example. Additionally downstream companies can buy RSPO certification and Independent Smallholder (ISH) credits. ISH credits provide smallholders with the advantage of selling their certified produce at a premium, rewarding sustainable agricultural practices.
- Producer and consumer governments can create an enabling environment that supports smallholder inclusion through demand-side actions, including public procurement policies, and regulations, and actions by producer countries on supporting smallholder farmer production, certification, access to better quality agricultural inputs, to finance/credit and ultimately to the market (domestic, regional and international). Government to government platforms such as the FACT Dialogue can help improve support and encourage collaborative action. Private sector led initiatives often work in parallel to government processes and send a strong signal to the market for collaborative action, including the importance of smallholder inclusive purchasing practices.

Finally, there is a need to address the issue of smallholder inclusion with more nuance.

Independent smallholders do not all have the same livelihood characteristics or experience the same challenges – they vary in how they farm their land, how dependent they are on their farm for income, and their living circumstances. Approaches to strengthening smallholder inclusion should consider this nuance and how action needs to be varied or directed in a diverse supply base.



1. Introduction

Smallholder farmers are critically important to the resilience of global palm oil supply chains, both now and for the future of the industry. Estimates suggest that around 25-40% of the global palm oil volume is produced by smallholders¹ – in Indonesia and Malaysia, smallholders contribute approximately 40% of total production, and more than 7 million smallholders around the world rely on oil palm production for a living.²

But they are facing challenges – volatility in prices, stagnating yields, and requirements from the downstream supply chain – that means they are at risk of being excluded from certain markets. Smallholders must be supported to ensure they can maintain and improve their livelihoods amidst these challenges and the pressures of climate change. They cannot be left behind because they are crucial to meeting these global challenges of climate change, biodiversity loss and future oil supply. To address this, procurement practices of companies in the supply chain need to be ‘smallholder inclusive’.

In May 2025, Palm Oil Barometer set out a clear call to action, putting forward recommendations to help guide a transition from sustainable sourcing to inclusive procurement, through which smallholders are supported as business partners rather than just obligated by downstream partners to meet a series of requirements (see box on right).

This report aims to build on this body of evidence by further exploring how palm oil supply chains can be transformed to become more inclusive of smallholders, providing a fair income and access to markets.

It aims to add nuance to this conversation by exploring in more detail our perception of who smallholders are and what inclusivity means to them. It looks into the actions companies and governments are taking to ensure their inclusion, and how procurement can be strengthened within and beyond supply chains.

To understand how procurement practices can be more inclusive of smallholders, it is first important to consider the details of smallholder supply chains and their practical realities. Section 2 explores the smallholder perspective of these issues, before section 3 clarifies the concept of inclusive procurement and explores current procurement practices of actors across the supply chain, giving recommendations for strengthening action. Section 4 discusses the role of government action and the enabling environment, before section 5 summarises key findings and conclusions.

Solidaridad’s Palm Oil Barometer 2025:

The Palm Oil Barometer, published in May 2025, highlighted how the palm oil value chain should shift from sustainable sourcing to inclusive procurement. Smallholder inclusivity is defined as the interlinkage of the four dimensions of inclusion: ownership, voice, risk and reward. The Barometer presented a set of recommendations for buyers of palm oil products based on the four principles for Procurement for Prosperity:

1. Policy: Formulate internal policy, ensure commitment and implementation
2. Pricing: Implement fair trading terms, including fair pricing and payment terms and reward sustainable performance
3. Partnerships: Introduce equal partnership and collaboration
4. Programmes: Support suppliers through programmes and adequate investments

¹ <https://www.solidaridadnetwork.org/wp-content/uploads/2023/04/Briefing-paper-EUDR-and-palm-oil-smallholders.pdf>

² <https://rspo.org/as-an-organisation/support-smallholders/>

1.1 Challenges faced by smallholder farmers

Concerns regarding inclusion of smallholder farmers are not new, and improving smallholder livelihoods has been a topic for development cooperation for some time. The nature of global market requirements and other pressures from geopolitical uncertainty and climate change present challenges to smallholders, including:

- **Market volatility**
 - Climate change-related weather events can severely impact oil palm yields, and smallholders are vulnerable to these shocks.
 - Price volatility is impacting income and has a more significant impact on smallholders compared to other producers.
- **Receiving a living income**
 - Although oil palm brings economic benefits to many smallholders, they are also vulnerable to economic shocks from volatile market conditions. This means that income for many remain precarious. Support and stability are needed for farmers to achieve a living income.
 - Smallholders face challenges such as lack of access to fertilisers, seedlings and modern farming methods, which limits their ability to produce good yields and consequently impacts their income.
- **Meeting regulatory requirements**
 - It is apparent that smallholders may be unable to meet or demonstrate legal compliance with new regulations, such as the EUDR, mainly due to lack of formal land titles, knowledge, and finance for investment.
- **Meeting voluntary market requirements**
 - Smallholders can face barriers to achieving sustainability certifications, such as RSPO, primarily due to cost. NDPE policies are also implemented by many companies, which smallholders may struggle to meet the evidence requirements for.
 - Smallholders can struggle to comply with strict oil quality and traceability requirements from the EU market.

These challenges can impact smallholders' capacity to access certain markets, and despite the economic benefits of oil palm production, market uncertainty can impact livelihoods. Not all smallholders face economic difficulty but rather are at a greater risk of this challenge due to market and price uncertainty which disproportionately impacts smallholders as the risk takers.

These factors, and their implications for smallholders, vary across local and global markets – as explored in the next section.

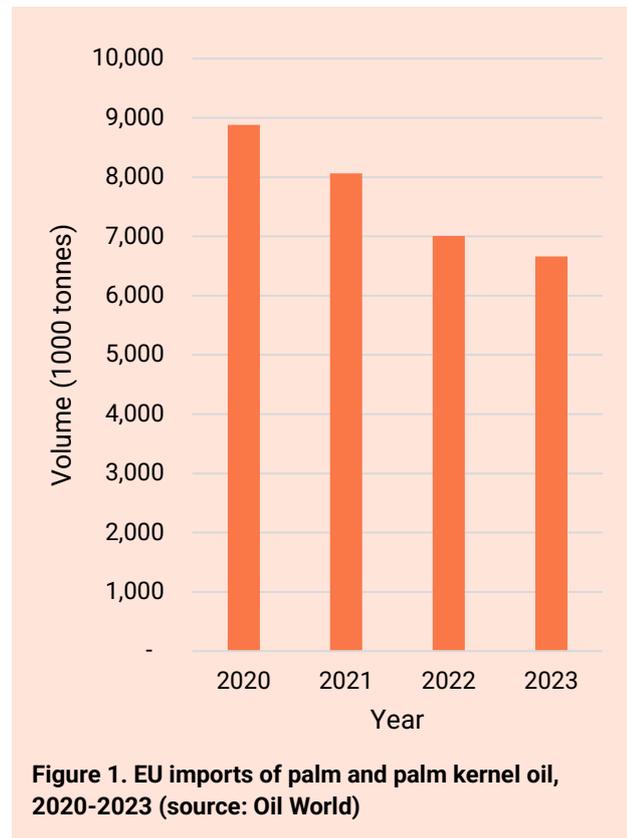
1.2 Global market dynamics and challenges for smallholders

The global palm oil market is being influenced by a series of rapidly evolving factors, including geopolitical issues, climate change and regulation.



Global production of palm oil remains dominated by **Indonesia** and **Malaysia**, who collectively account for 83% of total palm oil production.³ Global demand also remains strong; Indonesia is not only the world’s largest producer, but is also the largest consumer, with a significant and increasing proportion supplying domestic demand for biofuels due to ambitious government biofuel targets.⁴⁵ The biggest importers in 2024 were India, China, and the EU⁶ – but whilst demand globally remains high, the dynamics and requirements across these key markets vary considerably. Implications for smallholder inclusion therefore vary across these markets.

The EU market is experiencing a decline in demand for palm oil with the overall market shrinking – imports from June 2024 to June 2025 totalled only 2.8 million tonnes, a decline of around 20% compared to the previous year.⁷ This follows a trend of consistent decreases since 2020 (see figure 1). A number of factors could be behind this, including the phasing out of palm oil in biofuels in Europe under the EU’s Renewable Energy Directive (RED).⁸ Regulation is playing an increasingly important role in the EU, with the incoming EU Deforestation Regulation (EUDR) requiring granular traceability and evidence of legality and deforestation-free for palm oil products. Despite ongoing delays with the regulation, many companies have been working to implement requirements. Additionally, standards on disease control, food quality & safety, and sustainability are driven by consumers and in the case of global supply chains by consumer-facing companies and governments and often transferred into national regulation. Europe remains the biggest market for RSPO certified palm oil, with RSPO certification a key voluntary requirement of many EU importers (although the decline in EU imports means that the premium market for palm oil is shrinking). Traceability and evidence requirements of the EUDR, and voluntary requirements focused on RSPO certification which can be challenging for smallholders to comply with, are factors limiting access to EU supply chains for smallholders.



³ <https://www.fas.usda.gov/data/production/commodity/4243000>

⁴ https://www.fern.org/fileadmin/uploads/fern/Documents/2022/Palm_oil_production_consumption_and_trade_pattern.pdf

⁵ <https://news.mongabay.com/2025/05/community-based-biofuels-offer-sensible-alternative-to-palm-oil-for-indonesia-analysis-shows/>

⁶ Data from ITC Trade Map

⁷ <https://www.ofimagazine.com/news/eu-palm-oil-imports-decline-significantly>

⁸ https://www.eeas.europa.eu/sites/default/files/20190321_press_release_palm_oil_en.pdf

In contrast, in big import markets such as **India** there are reportedly much less stringent requirements surrounding sustainability and oil quality.

India is the second largest consumer of palm oil with its growing appetite fuelled by consumer demand for affordable edible oils. It remains heavily reliant on palm oil imports from countries such as Indonesia, Malaysia and Thailand, with India importing 7.8 million tonnes in 2024/25 (according to USDA oilseeds report August 2025).

For these imports, there is reportedly significantly less appetite among Indian stakeholders to understand the origins of their volumes, and by extension engage with or invest in smallholders compared to its domestic production market. Downstream actors in India often perceive limited value in investing and supporting smallholders outside the domestic market.

Because India's market requirements are less stringent than the EU with currently no import requirements, smallholders from Indonesia and Malaysia can access the Indian market more easily but are not necessarily supported or incentivised to adopt sustainable production practices or develop secure livelihoods, in contrast to India's domestic production sector (see box 1).

Global market dynamics impact the actions of supply chain actors operating in, and sourcing from, different regions. As discussed, these varying market requirements can create challenges for smallholders.

To understand the extent and type of support needed for smallholders to ensure their inclusion in supply chains, it is important that we firstly explore the nuance of smallholder identities and customer relationships, and how this relates to procurement.

Box 1. Domestic production and smallholder support in India

India's production of palm oil remains relatively small, with estimates suggesting around 400,000 tonnes of palm oil is produced yearly. The Indian palm oil sector is dominated by three companies - Godrej, Patanjali Foods Limited, and 3F Industries Limited – who produce 80% of India's palm oil.

The Indian government plans to expand the palm oil sector through its National Mission on Edible Oils launched to boost production, support smallholders, ensure food security and to ultimately allow India to become self-sufficient. India's domestic palm oil sector is almost entirely driven by smallholder farmers, who often intercrop with other crops such as cocoa to maximise income and land use. The landholding pattern in India is 100% smallholder production as corporations cannot own land. In India, the oil palm sector is highly structured and regulated by the government, with set prices and mandated smallholder inclusion – see section 4, where this topic is explored in more detail.

Smallholder inclusion is appealing for Indian brands as part of their corporate social responsibility (CSR) commitments – however these commitments focus on the domestic market.

2. Exploring the smallholder perspective

Oil palm continues to be an attractive crop for many smallholders as it is relatively low maintenance and can be high yielding, bringing considerable financial benefit, reflected in the large number of smallholders who are engaged in oil palm production. However, smallholders face challenges, as discussed in section 1. The scale of these challenges and the subsequent support needed varies, however, as smallholders are not a homogenous group.

This section discusses the need for a deeper understanding of the variation in the characteristics of smallholders' livelihoods and explores the dynamics of smallholder supply chains, considering implications for inclusive procurement.

2.1 The need for nuance: who are smallholders?

Smallholders are usually defined based on their size and differentiated as either independent or scheme/plasma in the palm oil industry. For example, the Roundtable on Sustainable Palm Oil (RSPO) defines smallholders as "An oil palm grower with a total accumulative planted area of oil palm that is smaller than or equal to 50 hectares".⁹ Scheme smallholders are defined as part of an organised scheme and are often associated with larger plantations or mills, receiving support and technical assistance. An independent smallholder operates independently and does not fulfil the criteria of a scheme smallholder.¹⁰

But the reality of smallholder classification is rarely this black and white. Some scheme farmers, for example, also own independent farms. Popular definitions and the dual categorisation of smallholders can therefore be reductive of the variety of oil palm farmers and their experiences.

Independent smallholders (or any smallholders who own independent farms) are most at risk to the challenges outlined in section 1.1 and are the focus of this report.

They are not a homogeneous group and there is a wide diversity of actors that compose this part of the palm oil supply chain. The variation in independent smallholder experiences and livelihoods generally remain poorly understood and a closer examination shows that not all fit a single definition.

Independent smallholder circumstances and livelihoods may vary in the following ways:

- **Area of land owned:** Smallholder farms can range in size from 0.25 up to 25 - 40 hectares (ha). In some cases, farm sizes can be even larger, however as smallholders are often capped at 25 or 40 ha, anecdotal evidence suggests that, for tax reasons, some do not legally declare the true size of their land. Smallholders with larger farms are often more entrepreneurial, acting as traders or collection points, and typically hold a higher social and political status within the village. Smaller farms will always

⁹ RSPO P&C 2024

¹⁰ See full definitions [here](#)

depend on agents to sell their Fresh Fruit Bunches (FFB). Small in size is also a relative concept. Smallholder oil palm farmers in Indonesia are defined as less than 25 ha (many have much less); in Colombia this is 50ha. For other commodities, or in other countries, smallholders may be defined as 5 ha, 2 ha or less. A smallholder farm defined based upon the number of hectares of the farm is not equal to the farm's ability to provide a living income.

- **Reliance on farm income:** Some smallholders are considered absentee smallholders as they treat oil palm as a side income or asset, often maintaining other jobs e.g., taxi drivers, airport staff and working or living in the city. Oil palm's low labour demands enable this flexibility of oil palm production as an additional income.
- **Use of external labour:** Absentee smallholders often hire external labour and harvesters to work their land, but external labour is also key to other smallholders for other reasons – for example, ageing smallholder populations. The need for external labour means that there are workers dedicated solely to harvesting the FFB who move collectively between smallholder plantation areas to fulfil this work. These workers are directly responsible for cultivating the oil palm and therefore have a considerable impact, yet their role remains relatively invisible in the debate. See photo on right.
- **Differences in availability of government support between different countries:** Smallholders in Malaysia and Indonesia experience varying levels of government support and have different standards to meet within the MSPO and ISPO criteria (see section 4). Compliance with national standards and other mechanisms of government support are also in operation in other key markets like India and Colombia.
- **Differences in smallholder characteristics between regions:** In Malaysia there is distinction between smallholders regionally as the average size of land varies across the country. The diversification of farms also depends on location. Farms in the Eastern Coast of Malaysia are less diversified as this is where most refineries are located.
- **Knowledge:** Smallholders have differing levels of understanding and knowledge on issues, such as legality documents, land ownership, good agricultural practices (GAP), and need and access to replanting tools and good seedlings. There is often a lack of knowledge on sustainability certifications, such as ISPO and RSPO, or market requirements including EUDR, among farmers except those who work with companies (as scheme smallholders) or NGOs. There are also fears of applying for formal documents due to land illegality fears for some smallholders.
- **Land legality:** Knowledge and possession of legal documents of land ownership varies considerably between farmers on the ground. Some are not aware of all legally required documentation, and in a similar way, there is very limited knowledge on voluntary certification schemes, EUDR or even national certification schemes (especially in Indonesia) among farmers except those working with a company or NGO. In addition, some farmers are hesitant to apply for



Workers from a smallholder farm with their FFB harvest. Workers carry out essential tasks including harvesting and fertiliser or herbicide application and are important particularly to larger smallholders who may not live locally to their plantation.
Source: Thijs Pasmans



Dealers transfer FFB between trucks. FFB can be passed between several intermediaries before reaching the mill.
Source: Thijs Pasmans

formal documents due to fears of being in illegal forests or peatland. Scheme or plasma farmers (see 2.2) in Indonesia tend to have a higher likelihood of formal documentation and access to ISPO (for their plasma farms). On the contrary, more isolated areas are shaped by a complex network of local public and private actors where land is sold and bought only transferring a 'nota' but without ownership documents or national registration. This can result in potential conflict over land claims with company concessions or protected areas.

Other factors relate to reliance of household labour for production activities, production for subsistence or for sale, gross sales, or share of household income derived from the farm activities. Smallholders face different realities and different legal, social, and environmental challenges. Understanding these differences is essential for addressing smallholder needs and providing support that is truly effective in enhancing resilience and improving livelihoods.

The nuance of smallholder livelihoods should therefore be reflected in discussions about smallholder inclusion – it could help to direct the extent and type of support provided by downstream actors to their smallholder supply base.

Whilst the circumstances of independent smallholders' livelihoods can vary, the supply chains they supply FFB into have common characteristics – most importantly for this topic, the crucial role played by dealers as an intermediary actor between independent smallholders and mills.

2.2 Smallholder supply chains: the role of dealers

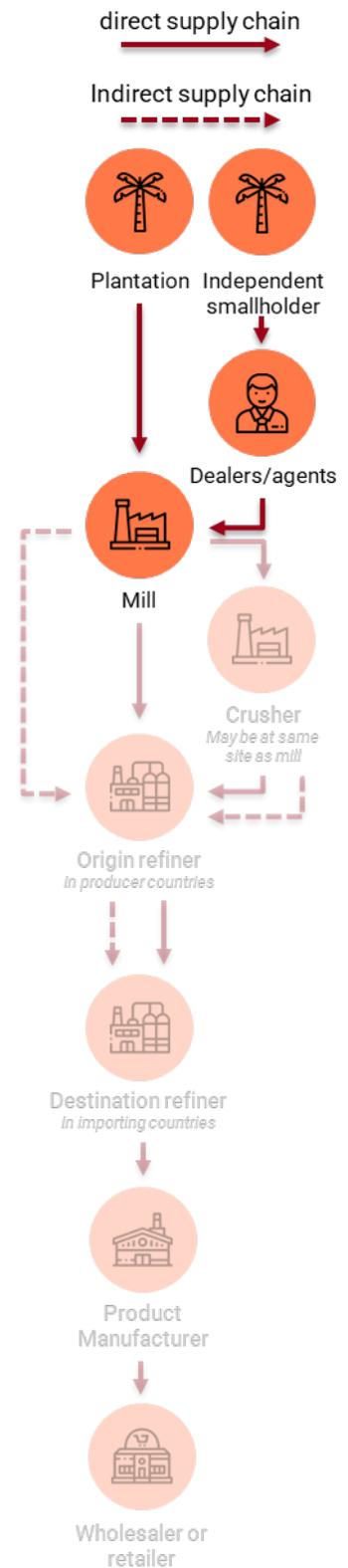
Independent smallholders, with small plots of land and limited resources, do not usually supply FFB directly to mills. Instead, they are sold to dealers (or agents), whose customers may then be other dealers, or mills.

In addition to often being a central part of the community, dealers play a crucial role especially for independent smallholders by offering some of the following services:

- Collection of FFB from individual farms.
- Physical transportation of FFB to mills.
- Harvesting services.
- Instant cash payment.
- Supply of credit or other resources, such as fertiliser.

These services work well for independent smallholders who perhaps lack the financial and technical resources required to otherwise access this supply chain. Dealers will often collect or receive FFB from multiple farms, sourcing from different areas due to price and availability, resulting in mixing of FFB from different origins. FFB are sorted collectively by dealers based on size and quality, with loose fruits also collected and sold separately.

The role of dealers in collecting small volumes from multiple origins, and the presence of sometimes as many as 7 - 9 intermediaries between farmers and mills, is a primary reason as to why independent smallholder supply chains can lack visibility back to origin.



There is a common perception that dealers always sell at a higher price compared to farmers and therefore take significant profits away from the smallholder farmers to keep for themselves. However, dealers also have to bear costs and risks, including that of transport (the state of the road and weather conditions), and rejection of FFBs from mills. This is also reflected by Daemeter: “Contrary to theories that these middle players take significant profits, initial field surveys suggest that agents receive very modest profit margins per kilogram of FFB compared to farmers, and that they also take on the majority of the risk as they pay cash at farm gate and therefore may not be able to pass on subsequent charges/penalties to farmers.”¹¹

Whilst their services offer essential benefits to independent smallholders, the role of dealers in supply chains can create challenges for downstream supply chain actors – in particular, for transparency and traceability of supply. The informal nature of transactions and mixing of FFB from different farms obscures traceability between mill and plantation. This is important because of requirements of downstream companies for traceability to plantation – both to meet regulatory requirements (e.g. EUDR) and requirements for RSPO certification.

However, new research from Ekaputri et al. (2025) suggests that RSPO certification of mills is not actively excluding smallholders. A recent study found no evidence that independent smallholders exited markets after mill certification (“active” exclusion).¹² Instead, only 36% of certified mills ever purchased from independent smallholders, and independent smallholder lands were less common around certified (29–38% of palm area) versus noncertified (41–42%) mills. The study recommended that “to address such “passive” exclusion, supply chain governance programmes should encourage participation of actors well-positioned to source from small-scale producers.” With most independent smallholders being passively excluded from RSPO supply chains in this way, active participation of and engagement with dealers can provide a stronger link to farmers.

From a smallholder’s perspective, dealers play a vital operational and social role. However, from downstream buyers’ perspectives, they are a barrier to traceability and a risk of regulatory non-compliance, particularly in non-certified supply chains. **Dealers play such a fundamental role in these supply chains that, to ensure inclusion of smallholders, the supply chain also needs to ensure inclusion of dealers. They can be used as points of leverage, using them to reach farmers, share knowledge, support good agricultural practices, and improve market access and living incomes.**

The next section explores current actions being taken by companies to support smallholder inclusion, and identifies recommendations for strengthening action on inclusive procurement.



*A dealer's truck on a weighing bridge, used to weigh the FFB being brought to a collection yard.
Source: Thijs Pasmans*



*FFB are unloaded from a truck into a collection yard.
Source: Thijs Pasmans*



*FFB at a dealer's collection yard awaiting transport to the mill.
Source: Thijs Pasmans*

¹¹ <https://www.daemeter.org/resource/overview-of-indonesian-oil-palm-smallholders-farmers-a-typology-of-organizational-models-needs-and-investment-opportunities/>

¹² <https://www.nature.com/articles/s43247-025-02683-6>

3. Smallholder inclusion in the supply chain: current actions and recommendations

As smallholder inclusion is not a new topic within the palm oil industry, there are actions being taken to address this problem across different levels of the supply chain. However, the actions that companies can and do take varies significantly. This is largely dependent on the company's position in the supply chain, the nature of their relationships with producers, and their ability to influence upstream procurement practices.

In this section, based on extensive desk-based mapping of current practices supplemented by stakeholder interviews, we will look at current actions and recommendations across two broad parts of the supply chain:

- Upstream companies operating as growers, mills and refineries in producer countries.
- Downstream companies operating in consumer markets, including refiners importing from producer countries, manufacturers, wholesalers and retailers.

But firstly, what do we mean by smallholder inclusion and inclusive procurement?

3.1 What is smallholder inclusion and inclusive procurement?

We've explored some of the global context and challenges faced by smallholders, and some of the nuance of smallholder livelihoods and supply chains – so before we look at what support is being provided to them through the supply chain, what do we mean by smallholder inclusion and inclusive procurement?

The concept of smallholder inclusivity is multi-dimensional and is not just about simply buying from smallholders or a simple tick box exercise. Inclusion must be long-term and sustainable, ensuring that farmers and communities have access to resources, markets, and opportunities essential for their growth and resilience. In this report when discussing smallholder inclusion we build upon the Barometer's definition (see right) and to consider two dimensions of smallholder inclusion, from the perspective of the supply chain:

1. Access to markets/supply chains -can be impacted by direct procurement decisions.
2. Broader support to future-proof smallholder livelihoods and production, which is vital to global supply, including through:
 - Access to resources including seedlings and replanting support.
 - Training on Good Agricultural Practice (GAP) and financial literacy.
 - Support in obtaining legal documentation.

Smallholder inclusivity is defined in the Palm Oil Barometer as:

Ownership: who holds ownership of the business and its assets

Voice: the capacity of marginalized actors to shape business decisions through participation and feedback

Risk: commercial, political and reputational risks

Reward: sharing of economic costs and benefits

The language used around smallholder inclusion and exclusion is not always clear. Some use this phrase to solely refer to smallholders being able to sell FFB and access certain premium supply chains (e.g. EU); in reality, inclusion also requires broader support to strengthen smallholder prosperity and livelihoods.

The 2025 Palm Oil Barometer has the aim of supporting the palm oil sector in shifting from sustainable sourcing to sustainable and inclusive procurement to ensure a more ethical and resilient sector. Procurement is defined as a strategic process – procurement practices have the potential to support and enable key improvements in global supply chains, including contributing to living incomes and living wages, and supporting prevention of deforestation, resilience to climate change and restoration of ecological functions.

3.2 The upstream supply chain: growers, mills and origin refineries

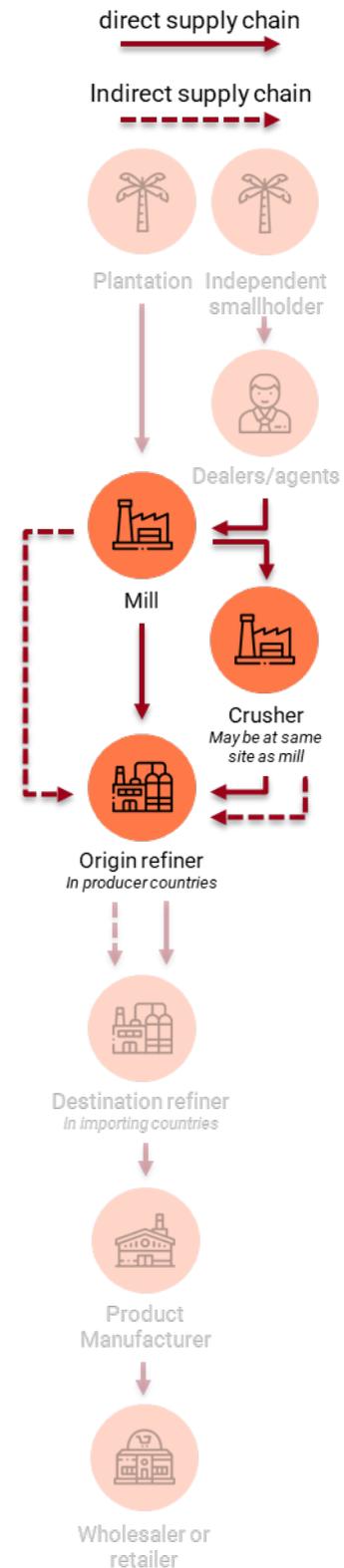
Some major companies in the upstream supply chain operate integrated supply chains across the major stages of FFB production and processing; they own plantations as growers, own and source from mills and operate refineries. Other companies are active only at a certain stage of this process – such as owning refineries, but not mills or plantations. For any of these major upstream companies, factors impacting purchasing decisions – with implications for independent smallholders – vary across these processing stages.

Mills have a clear understanding of their supply bases. Factors influencing their procurement decisions include:

- Location – sourcing from plantations and from smallholders, via dealers, within the surrounding supply base.
- Legality requirements in country and in export markets must be met.
- Quality of FFB – the oil extraction rate (OER) is key for mills, and is directly related to FFB quality. If fruits do not meet the required OER they may receive a lower price or be rejected.
- Certification – mill must meet any national (e.g. ISPO, MSPO) or voluntary (e.g. RSPO) certification requirements. This can impact purchasing decisions – if a mill is RSPO Identity Preserved certified, it cannot source FFB that is not RSPO certified. If it does, it automatically becomes a Mass Balance mill.
- Customer policies and codes of conduct must be adhered to.

Refiners at origin may have reduced visibility of their supply bases, especially through indirect supply chains, and have additional variables that need to be accounted for in procurement actions:

- Direct and indirect supply can limit influence – if the company in question is sourcing directly from mills that it owns or operates, its visibility of the supply base and level of influence is much stronger compared to indirect sourcing from third parties. Visibility of and ability to influence sourcing from smallholders is likely far reduced in indirect supply chains.

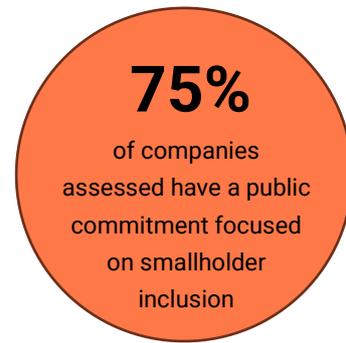


- NDPE compliance – in addition to certification requirements, refiners (particularly those supplying EU markets) have requirements for NDPE compliance that mills must demonstrate adherence to.
- Quality – including presence of contaminants – is an essential control point for refiners that impacts procurement decisions.
- Price – a primary factor in procurement for refiners is cost.

It is clear that there is a wide range of variables driving purchasing decisions at this point in the supply chain, which can impact smallholder inclusion or access to some supply chains. But, driven by a recognition of the crucial role played by smallholders in ensuring resilience of supply, upstream supply chain companies are taking action to support them.

3.2.1 Existing actions of upstream actors

A desk-based review of 12 major companies operating as growers, mills and refiners, responsible for a significant proportion of global volumes found that 75% have a public company commitment that is focused on smallholder inclusion. However, there is lack of reporting on progress or tangible targets to measure progress towards this goal, and the language used is often vague. For example, “Company X is committed to supporting the inclusion of smallholders into the supply chain”. Whilst it is positive that companies are discussing smallholder inclusion as a public commitment, the commitments mostly seem to lack specific, measurable indicators of progress and do not clearly demonstrate how the company is addressing the issue in practice.



Many companies (including 11 of the 12 reviewed) have a programme in place to support oil palm smallholders. Interviews with companies complemented desk-based research to explore in more detail these actions that are currently being taken. Such programmes are mostly focused on smallholder empowerment through:

- Facilitating uptake of RSPO certification.
- Providing training on good agricultural practices (GAP), including support on replanting programmes.
- Supporting access to finance and resources.
- Local capacity building, for example provision of training for trainers.

Only two companies mentioned in public information paying premiums or providing a financial incentive for smallholders to engage in their programmes. This highlights how **companies are working on the ground to empower smallholders and improve livelihoods through training programmes for example, however there is less appetite for direct financial support to smallholders.**

The types of support programmes that companies are implementing vary depending on whether or not they are sourcing directly from smallholders in a given country or region. For example, one company when interviewed explained that engagement with smallholders is significant in direct supply chains where they own the mills being supplied with FFB, but in indirect supply chains there is a reliance on third parties working in compliance with their NDPE policy. In these scenarios, companies are also implementing

SD Guthrie, Solidaridad and Colgate-Palmolive Smallholders Inclusion Project

This project aims to enhance smallholder capabilities, promote biodiversity conservation and ensure sustainable livelihoods across the Malaysian state of Perak, where almost 47,000 smallholders are operating. This collaboration between SD Guthrie, Solidaridad and Colgate-Palmolive focuses on training on GAP and compliance with MSPO and relevant national laws. As of June 2024, the project had trained over 1,200 smallholders, helping to ‘raise the floor’ through supply chain inclusivity.

landscape-level projects to deliver support, in the absence of direct engagement through supply chains (see example on above/right).¹³

Third party assessment scores suggest varying levels of action are being taken on smallholder support across this group of companies. For example, ZSL’s SPOTT assesses palm oil producers, processors and traders on their public disclosure regarding their organisation, policies and practices related to ESG issues. One of the scoring categories is ‘smallholders and suppliers’, and companies are scored out of 100% on their commitments and programmes to support and include smallholders. Of the 12 companies reviewed the average score was 65%, however scores ranged from 10% to 98% which highlights a wide range in the level of action being taken to support smallholder inclusion.¹⁴



3.2.2 NDPE policies – driving sustainability, but putting smallholders at risk of exclusion?

Since 2013, major palm oil companies have increasingly adopted ‘No Deforestation, No Peat, No Exploitation’ (NDPE) policies that aim to ensure palm oil is more sustainable.

It is estimated that, as of 2022, over 93% of all palm oil imports into the EU for food use are covered by NDPE policies when including RSPO certification. Additionally, currently 100% of palm oil entering Europe is traceable to oil mill level, illustrating the capacity of European importers to track progress at the mill level.¹⁵

The NDPE Implementation Reporting Framework (NDPE IRF) is the tool that provides palm oil companies with an industry-wide approach to measure progress on NDPE commitments across the entire production base connected to their supply chain. Through the IRF, mills across a company’s supply based are categorised as follows (sourced from the IRF website):

Unknown	Known	Awareness	Commitment and Starting Action	Progressing	Delivering
Untraceable volume	Mill is traceable but has not taken any actions.	The mill has been made aware of NDPE sector requirements and what actions are expected of it.	The mill has made commitments to ensure all volumes comply with the relevant NDPE commitments and is planning or initiating action.	The mill has an action plan and has made progress on directly managed areas (if applicable) as well as third party supply.	The mill can demonstrate that all supply to the mill (directly managed and third party) is meeting NDPE requirements.

Some businesses are moving a step further and using third party verification. Currently there is no evidence to suggest that smallholders are being excluded as part of the IRF verification but there is a risk of this, driven by buyers who may wish to avoid smallholders when considering requirements of markets such as the EU. The reason for the risk can be demonstrated when reviewing the verification protocol used by the third parties such as Control Union.

¹³ <https://www.sdguthrie.com/press-releases/smallholders-inclusion-project-empowering-palm-prosperity-through-landscape-collaborations>

¹⁴ <https://www.spott.org/palm-oil/>

¹⁵ <https://rspo.org/new-report-shows-europe-is-the-biggest-market-for-sustainable-palm-oil/>



This IRF Verification Protocol released in 2020 by Peterson outlines the requirements for verification bodies.¹⁶ Two points in the criteria focus on smallholders within the supply chain:

- Is there is ongoing work with third party suppliers, such as independent smallholders, independent estates and FFB dealers to implement commitment related to no deforestation?
- Is there is on-going work with third party supplies such as independent smallholders, independent states. FFB dealers to implement commitment related to no peat?

There is guidance for the aggregator and the verifiers which includes.

- Agreements with third party suppliers to participate in the programme
- Conducting farm mapping
- Checking on legality of farm locations
- Conducting deforestation risk assessments such as on HCV/HCS

The requirements for inclusion may be in difficult for many smallholders to achieve. To do so smallholders may need to work in groups or cooperatives to meet NDPE criteria collectively. The use of traceability tools tailored for smallholders such as mobile apps and low-cost GPS tools used to geolocate smallholder plots maybe required, or investment from NDPE-aligned companies in the training of smallholders on:

- Best agricultural practices
- Land legality documentation
- Traceability systems (e.g., GPS mapping)

Companies in the supply chain are taking action to support smallholders in meeting these standards through smallholder engagement and training projects.

¹⁶ https://ndpeirf.wordpress.com/wp-content/uploads/2020/11/irf_verification_protocol_november-2020.pdf

3.3 Downstream supply chain actors

Beyond the point of export, with ‘destination refiners’ in importer countries often importing from ‘origin refiners’, visibility of smallholders in the supply chain is significantly reduced. For the purposes of this report, the term ‘downstream’ supply chain actors or companies refers to all points of the supply chain beyond this point of export, including destination refiners, manufacturers, wholesalers and retailers.

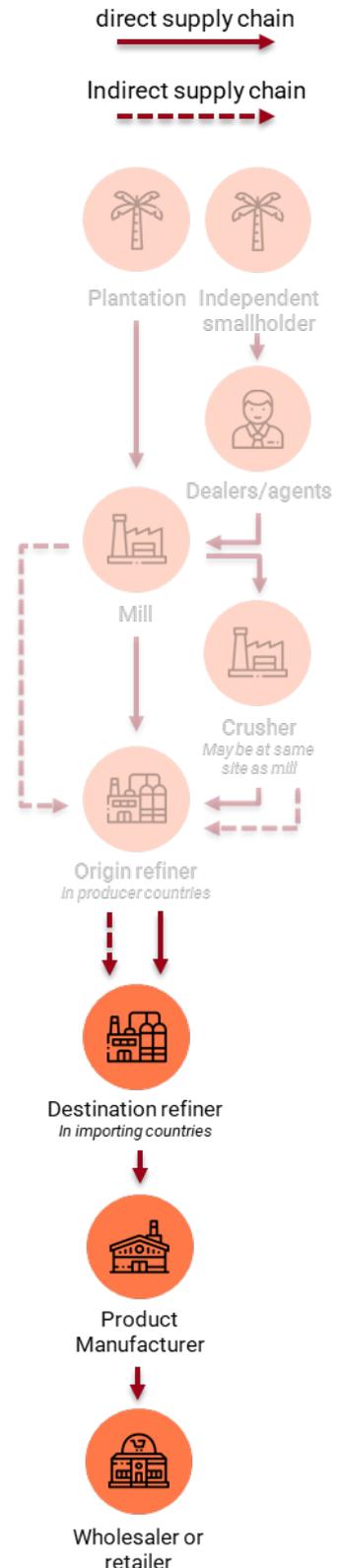
These supply chain actors are grouped together for this report due to similarities in the challenges they face and actions they are able to take with regard to smallholder inclusion.

3.3.1 Existing actions

Through our stakeholder engagement process, we found that existing actions for downstream supply chain actors vary. However, a key finding was that **smallholder inclusion is not a priority for many downstream companies** who generally have little to no visibility of the producers in their supply bases. Smallholder inclusion is also not generally a market demand from customers.

Below are some of our findings that support this:

- **Other existing requirements in global markets are taking precedent** and are more pressing for many downstream actors than smallholder inclusion, including:
 - **Cost/value.** There is often a lack of perceived value by downstream actors of including smallholders in the supply chain and therefore they are not prepared to pay premiums. Downstream price is acting as a barrier for action.
 - **Traceability.** A lack of traceability in smallholder supply chains poses risks for companies, especially the financial and market risk of penalties related to non-compliance with the EUDR.
 - **Regulatory compliance.** EUDR is a major focus for EU companies – in addition to traceability requirements, importers also require evidence of legality and no deforestation, which can be challenging for smallholder farmers to formally provide. Additionally, EU companies are required to comply with regulation on oil quality and food safety which can impact procurement decisions.
 - **RSPO certification** is a key requirement for the EU, UK and US markets. However, RSPO certification can exclude smallholders due to challenges for independent smallholders in achieving it. These challenges can include high costs, lack of technical support, and difficulties with land tenure and documentation.
- **RSPO shared responsibility** is an annual reporting requirement for ordinary members who purchase over 500 tonnes of palm oil or palm kernel oil. It specifically asks if the member has a smallholder inclusion policy. For the purpose of this report, we undertook a review of 80 companies from the top 8 RSPO membership countries (the UK, Germany NL, USA, India, Japan, China and Italy). Only 14 recorded having smallholder inclusion policies, but further investigation of evidence provided suggests that information on what these commitments to smallholder inclusion actually entail is generally very limited and unclear.



- **Some downstream companies are funding projects** that support smallholders. Given the lack of precise traceability and visibility of origin, projects generally have limited connection to supply chains of those companies that have invested in them. But there are exceptions where downstream companies are able to take more direct action in their supply chains.¹⁷
- **Cross supply chain collaboration** is proving to be an area where collective positive impact can be achieved. For example, across Indonesia and Malaysia, downstream and upstream actors have demonstrated that coordinated landscape action can effectively tackle sustainability and smallholder challenges. As demonstrated by the Aceh Private Sector Coalition, convened and facilitated by IDH (see text box).¹⁸

As alluded to throughout the report, companies are taking different actions across different markets – there are considerable differences between the EU and India, two key importer markets, including:

- In the **EU**, stringent requirements related to regulation and voluntary commitments on sustainability can limit access to supply chains for smallholders, as discussed above.
- In **India**, smallholder inclusion is appealing for Indian brands as part of their corporate social responsibility (CSR) commitments – however these commitments focus predominantly on domestic sources. Little action is apparently being taken by Indian importers to support smallholders in other producing countries.

3.4 Recommendations

Some companies in palm oil supply chains are demonstrating commitment and action on smallholder inclusion, in particular upstream actors connecting with producers through their direct supply chains. But many, particularly downstream actors, lack the visibility and influence to act within their supply chains and are focusing on other key factors that impact procurement processes.

So how can actors across the supply chain strengthen action towards smallholder inclusive procurement?

There are no one-size-fits-all solutions to this challenge, given the different contexts across the supply chain that companies are operating in. Recommendations for action must be grounded in reality and build upon the principles set out by the Palm Oil Barometer on Policy, Price, Programmes and Partnerships. Our recommendations for companies in the supply chain are to:

Aceh Private Sector Coalition

IDH, working with nine companies (Apical, Mars Wrigley, Mondelez, Musim Mas, Nestle, PepsiCo, Permata Group, PT SMART Tbk and Unilever) the coalition jointly supports and implements the Aceh Sustainable Palm Oil Roadmap 2023–2045. It brings together government, civil society and major palm oil companies through a landscape approach to advance a deforestation and conversion-free palm oil sector, that is inclusive of smallholders. By aligning with government under a shared roadmap, companies co-invested in smallholder inclusion, HCV protection, and deforestation monitoring systems, demonstrating that inclusive, landscape-level action delivers measurable impacts that no single actor could achieve alone.

By 2024, these joint efforts had produced tangible results: annual palm-driven deforestation in Aceh Tamiang and Aceh Timur dropped from 330 hectares to 35 hectares, 2,800 smallholders achieved RSPO and ISPO certification, smallholders productivity increased by up to 50%, and 10,000 hectares of encroached land were restored through natural regeneration and agroforestry.

¹⁷ <https://rspo.org/rspo-solidaridad-and-aak-join-forces-in-advancing-mexican-sustainable-palm-oil-sector/>

¹⁸ <https://idh.org/news/companies-support-deforestation-free-inclusive-palm-oil-in-aceh>

- **Broaden the scope of inclusivity** so it is not concentrated just within a company's own supply chains, but also beyond their supply chain to look at the wider sourcing area. This may be a more accessible approach to smallholder inclusion for companies with limited visibility back to origin and would ultimately benefit all to help build stronger resilience of supply chains by supporting livelihoods and improving yields through GAP. It is also a more efficient approach as the costs of support to a wider sourcing area can be more widely shared.
- **Support meaningful and collaborative projects on the ground.** By supporting projects on the ground, as some already are, companies can work in partnership with smallholder communities to understand local realities. These projects can look to move past deforestation-free efforts to support biodiversity, regenerative agriculture, and mitigating climate risk to ensure long-term and sustainable inclusion of smallholders. For EU companies this could focus on developing specific projects to support the geolocation requirements of the EUDR for smallholders. For example, this could include technology provision and training that also focus on better yields and sustainability practices.
- **Strengthen understanding of smallholder producers in supply chains as transparency is improved.** New tools such as national traceability systems may help to improve visibility to origin for companies in the supply chain and companies could use new developments as they arise to improve understanding of their supply base. This includes new information on living income benchmarking as it becomes available –helping companies to understand the extent of support needed by producers in their supply chains.
- **Strengthened understanding and active promotion for Indian companies** who with a strengthened understanding of the importance of smallholders for their imports, could actively encourage companies to consider smallholder inclusion in their import policies. Through highlighting the connection between inclusive procurement and long-term food security for India, the strategic importance of smallholder production to Indian supply chains can be emphasised.
- **Improved knowledge of certification and verification approaches in India.** An improved knowledge of RSPO, ISPO and MSPO for Indian companies would allow companies to commit to smallholder inclusion through only buying certified products.
- **Buy RSPO Independent smallholder (ISH) credits.** ISH credits provide smallholders with the advantage of selling their certified produce at a premium, in reward for their sustainable agricultural practices. This links downstream companies to financially supporting smallholders and their resilience directly.
- **Encourage good agricultural practice** alongside NDPE policy implementation to support direct access to physical markets with voluntary requirements aligned with this. Financial support, training and capacity building approaches can contribute to this.
- **Provide support to dealers, recognising the significant role they play in smallholder supply chains.** Dealers can often be invisible further along supply chains, but it is important that we include dealers in the conversation, work out what their constraints are, and then see what support can be provided. The farm management support that dealers offer to independent smallholders can increase productivity – if we can ensure that dealers are offering more support to smallholders, and dealers are getting resource to do that from the supply chain, we can see better productivity and improvement to livelihoods. As described in section 2.2, recent research has

suggested that supply chain governance programmes should encourage participation of actors well-positioned to source from small-scale producers – such as dealers – to address ‘passive’ exclusion of smallholders.

- **Commit to a smallholder quota.** Companies could commit to ensuring a minimum proportion of volumes is sourced from smallholders. This requires a stronger level of traceability than many downstream companies are currently managing to implement but would encourage companies to seek approaches to improve transparency.
- **Communicate and share knowledge with customers and consumers on the importance of smallholder inclusion.** Support for smallholders now is vital to ensure sustainable production, prosperous livelihoods and resilient supply for the future – if sufficient support is not provided, this will negatively impact efforts of the industry to ensure climate-resilient, biodiversity-friendly and high-yielding supply. There can be a marketing role for companies to play here – improved understanding of and demand for smallholder inclusion from consumers and companies through the supply chain can drive stronger collective action at the production level.
- **Implement sustainability or CSR commitments consistently across sourcing footprints.** The same values of responsibility and inclusion should be applied to all producers in companies’ supply chains, be they domestic producers or suppliers from a different country.
- **Strengthen engagement and activities with India, the second largest palm oil consumer market.** This could include leveraging downstream players to broaden and increase market demand for sustainable palm oil, and strengthening smallholder support programmes beyond India, with a focus on training, incentives and opportunities for intercropping. Multi stakeholder engagement in India, not only with Indian companies, but also with international businesses, could be a key method of delivering this (for example drawing on the experience of the Aceh private sector Sustainable Palm Oil Working Group convened by IDH).

4. The enabling environment: government action

Beyond the supply chain, government action in both producer and consumer markets is key to creating an enabling environment that strengthens smallholder inclusion in supply chains. Governments can leverage their influence on sustainable market developments by 'leading by example' and instigating knock-on effects.¹⁹

4.1 Producer country governments

Major palm oil producing country governments, such as in Malaysia and Indonesia, play an important role in ensuring the sustainability of their palm oil production and exports. This includes the implementation of national certification schemes, namely the Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) certification schemes, and traceability platforms.

Malaysia has a strong framework of government support to smallholders in place. The Malaysian Palm Oil Board (MPOB) is tasked with providing support to smallholders; this support is organised and widespread with dedicated staff in different 'clusters' that the country is divided into. Support includes assistance with access to finance and seedlings, for example.

Malaysia's rollout of its MSPO certification scheme has been extensive even amongst smallholder farmers, with about 85% of the over 400,000 Malaysian smallholders currently MSPO certified. However, many have been certified against the now outdated 2013 standard, and there is concern that many will not be able to comply with the new 2022 standard, such as its HCV requirement. MSPO does, however, provide a mechanism for structured inclusion of dealers in certified supply chains, with dealers required to comply with the MSPO standard – under MSPO, dealers have to know where FFB are sourced from, and can only source from MSPO certified producers. This strengthens traceability and assurance at this point in the supply chain. Furthermore, the Malaysian government also supports traceability through the SIMS platform, which is linked to MPOB licences.

On the other hand, Indonesia has a much larger number of smallholders compared to Malaysia (approximately 2.5 million), and while significant in number, only a small proportion of this number have been certified to the ISPO standard. A framework for government support is in place through Indonesia's CPO Fund, but smallholders are

Indian government action on smallholder support

India is not just the world's largest importer of palm oil – it is also a producer. In India, the oil palm sector is highly structured and regulated by the government, with set prices and mandated smallholder inclusion. The government grants companies the rights to establish mills and smallholders are then connected and legally bound to the mill, meaning they must be included in supply chains. This means that there is no third-party involvement as the mills also establish collection centres, so the role of dealers is non-existent. Smallholders are inherently included in supply chains due to government intervention that legally binds smallholders to the mills, ensuring their participation. Moreover, smallholder inclusion is appealing for Indian brands as part of their corporate social responsibility (CSR) commitment.

¹⁹ <https://mekonecology.net/wp-content/uploads/2020/12/Mekon-Ecology-2020-Public-Procurement-in-ADP-countries.pdf>

reportedly struggling to access this support, and only a small proportion of the fund has currently been distributed to farmers. Indonesia is also developing a National Dashboard for traceability which will include palm oil and ISPO certification, and support smallholders to connect to export markets – a national traceability system such as this can be a powerful tool to connect producers transparently to global markets.

Governments in other producing countries are also taking action, with different contexts driving government support processes – examples are provided on the right for Colombia and India.

4.2 Consumer governments

Consumer governments can play a role in supporting smallholder inclusion in palm oil through for example procurement policies and by providing government-to-government support. Consumer (and producer) governments play an important role in creating an enabling environment that supports smallholder inclusion through demand-side actions – policies, regulations, support to private sector initiatives and in supporting action in other consumer markets and producer countries. In order to increase influence and impact, consumer governments can also collaborate with producer governments at different levels to provide support and/or channel resources to target on the ground solutions.

One example of this kind of government-to-government collaboration is the Forest, Agriculture and Commodity Trade (FACT) Dialogue. The FACT Dialogue, consisting of 28 countries, provides a safe space for government-to-government dialogue, a place to share experiences, encourage discussions, and ultimately create a dialogue between producer and consumer governments on forest, agriculture and commodity trade. A central aim of this initiative is supporting smallholder farmers to meet evolving global requirements for the traceability and transparency of commodity production. Among member countries, an exchange of best practices and the identification of effective approaches to scale up support for smallholder farmers is continuing to help identify the best approach to support smallholders.²⁰

Another example of government-to-government support is the National Initiatives for Sustainable and Climate Smart Oil Palm Smallholders (NISCOPS) which is funded by the Dutch and UK government. NISCOPS operates in major palm oil producing landscapes in Indonesia, Malaysia, Colombia, Nigeria and Ghana, with a focus on Asian and European markets. NISCOPS aims to strengthen existing partnerships and build new partnerships with national and subnational governments and to close the sustainability gap in palm oil production, focusing on smallholders. These smallholder support programmes mainly

Colombian government action on smallholder support

In Colombia, government initiatives are actively encouraging and supporting smallholder participation to combat social issues, where oil palm cultivation has contributed to tackling internal conflict by providing a legal basis for livelihoods. A significant proportion of producers in Colombia are smallholders, with 90% of palm oil growers in San Pablo in Colombia being independent smallholders. The Colombian Government has supported the transition to palm oil production for smallholders through its Alianzas Productivas initiative, and through implementation of the APSColombia national certification standard. The profile of smallholders in Colombia has also rapidly evolved as the stability of oil palm cultivation has enabled second generation farmers to become educated. Today, land is inherited, and second-generation smallholders are not farming the land themselves, instead seeing oil palm cultivation as a second income. Government support has directly contributed to smallholder inclusion in Colombia.

²⁰ <https://www.factdialogue.org/themes/smallholder-support/>

focus on climate smart agriculture and on closing the certification gap by engaging with governments at national and sub-national level.²¹²²

These initiatives help to encourage action at both a producer and consumer government level but inherently rely on funding from consumer governments highlighting the importance of their role.

In parallel, there is also a role for industry initiatives and stakeholder groups to play in supporting smallholders and their inclusion in palm oil supply chains. Initiatives, typically driven by demand side actors, such as the [UK Sustainable Commodities Initiative \(UKSCI\)](#), the Action for Sustainable Derivatives, and the Forest Positive Coalition (FPC) ran by the Consumer Goods Forum (CGF) provide valuable platforms for dialogue, collaboration and awareness-raising on key issues, such as smallholder inclusion.

An industry initiative can encourage consistency of member actions across operating countries by supporting the development of groups to support mass market change in producer/consumer countries. One recommended action could be the development of a clear mission statement that explicitly supports smallholder inclusion. This could help encourage industry action, foster alignment among stakeholders and establish a shared standard across the sector with consistent market messaging. With a broad reach and influence linking to other initiatives and platforms globally, industry initiatives can play an important role in mobilising both companies and consumers toward more inclusive and sustainable palm oil supply chains.

4.2.1 Public procurement policy action

Consumer governments in the European context see public procurement as a key market-based instrument towards smart sustainable sourcing while ensuring the most efficient use of public funds.²³ Through a desk-based review, public procurement policies from consumer governments including the UK, Denmark, the Netherlands, Germany, and the EU were analysed to determine whether their procurement policies addressed palm oil specifically, incorporated social criteria, or explicitly mentioned smallholders.

The policies that addressed palm oil were mostly related to procurement for food and catering services. These procurement policies generally lacked any mention of social value as a determinant for procurement with social value being considered as smallholder inclusion, living income, or community rights. Instead, policies were more focused on environmental impacts regarding carbon emissions, land use change and biodiversity loss. An important finding was that consistently public procurement policies need to balance value for money with environmental and social considerations.

However, that being said there are still some examples of public procurement policies that consider social criteria. For example, the UK government's buying standards for food and catering services includes a Social Value Act that ensures what may improve the social,

²¹ <https://www.idhsustainabletrade.com/ni-scops/>

²² <https://www.solidaridadnetwork.org/niscops/>

²³ <https://mekonecology.net/wp-content/uploads/2020/12/Mekon-Ecology-2020-Public-Procurement-in-ADP-countries.pdf>

environmental, and economic wellbeing of the area is considered.²⁴ The current UK policy is closely aligned with RSPO, but doesn't, for palm oil, call out social issues explicitly and is instead more focused on the definitions of legality and sustainability.

Another example is the German government department of agriculture who partnered with GIZ to develop a project for sustainable, climate-friendly palm oil production and procurement. This involved working with stakeholders in partner countries to encourage the take-up of sustainable and climate-friendly cultivation practices among smallholders. To boost demand for products using certified palm oil in Germany, the project also developed procurement guidelines for pilot municipalities to set the goal of exclusively considering sustainably certified palm oil public procurement.²⁵

These examples show how public procurement policies can address smallholder inclusion and social value for procurement decisions. However, this research suggests that smallholder inclusion is not explicitly deemed a priority topic in public procurement policies for all consumer governments.

4.3 Recommendations

Governments in both producer and consumer countries should have a responsibility to develop an enabling environment that supports smallholders to develop prosperous livelihoods from sustainable agricultural practices, and provide a framework for inclusion throughout supply chains. Our recommendations for government action are to:

- **Ensure complete rollout of national certification standards**, with appropriate support for smallholders to access them. This is important as a way to raise the base level of assurance of legality and sustainability, supporting access to certain markets and supply chains for which traceability is currently a challenge (such as derivatives and oleochemicals).
- **Provide support to dealers** in independent smallholder supply chains, for example by including them in national certification and traceability systems. This can help to improve visibility between mills and producers, and strengthen the crucial services that dealers provide to their smallholder suppliers.
- **Ensure that smallholder support funds are accessible to those that need them.** Smallholders are often isolated and district or provincial government support may be needed to provide the infrastructure for smallholders to access financial support.
- **Consider how public procurement can be used to drive awareness** of smallholder inclusion in the supply chain. These policies can be major drivers of change/action in consumer countries. Also ensure that sustainability (including smallholder support) has stronger weighting when awarding public sector contracts.
- **Collaborate across producer and consumer countries through government-to-government in parallel with business-to-business action**, including capacity building, to drive good governance in palm oil supply chains that prevents deforestation,

²⁴ <https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources>

²⁵ <https://www.international-climate-initiative.com/en/project/sustainable-climate-friendly-palm-oil-production-and-procurement-18-iii-092-asia-g-palm-oil-production-and-procurement/>

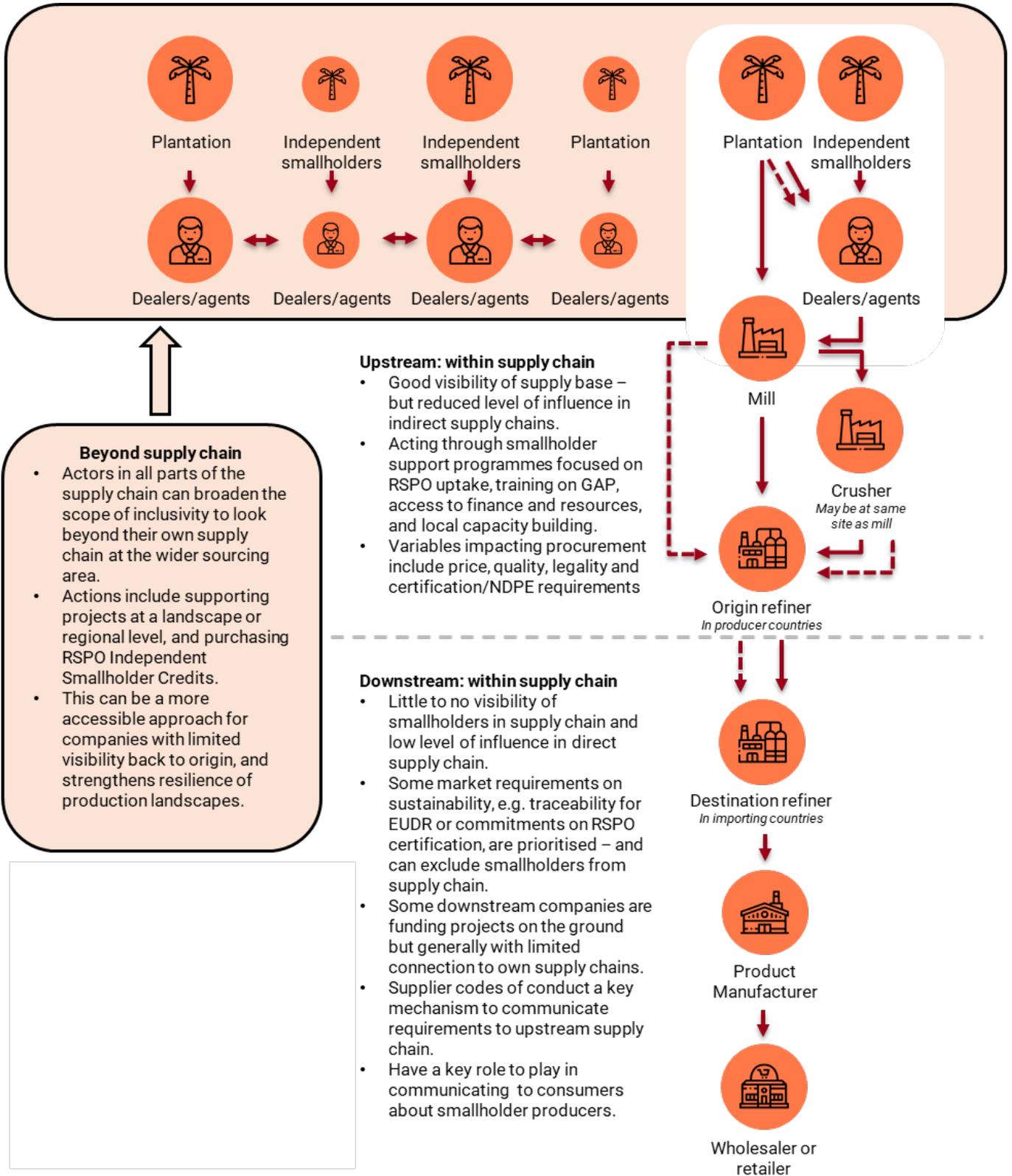
supports biodiversity and climate resilience, and strengthens sustainability of future supply, through ensuring smallholder inclusivity in all procurement practices.

- **Explore how a risk tolerance for sourcing from smallholders can be incorporated into legislative efforts** to recognise the need for flexibility and support to smallholders who face challenges in providing evidence. This could help to address challenges at each end of the supply chain – the lack of evidence that some smallholders are able to provide to downstream customers, and the necessity for to prioritise regulatory compliance (with EUDR in the EU).
- **Consider engagement and alignment with other consumer governments, particularly India**, as the second largest consumer market. India’s palm oil domestic production is smallholder-driven, highly regulated, and subsidy-dependent. Aligning India’s smallholder-driven model with global sustainability objectives (policies, regulations and actions at both private and public sectors) is essential for long-term resilience and compliance.

5. Key findings and conclusions

Summary diagram: Procurement dynamics in the upstream and downstream supply chain, and implications for smallholder inclusion

direct supply chain 
 Indirect supply chain 



The diagram above illustrates how the actions that companies can take, and their level of influence, vary significantly depending on their role in the supply chain. Upstream companies have greater visibility and connection to producers, and offer direct support to smallholders – however, such support is challenging to provide in indirect supply chains without direct control over mills. Some downstream companies are acting through financial support of projects on the ground but lack visibility to origin and a direct connection to their supply base, which can limit level of influence within supply chains.

A number of different variables are driving procurement practices at each stage in the supply chain, which can have implications for smallholder inclusion. These include cost, quality, legality requirements and customer requirements (e.g. certification and NDPE), and vary depending on market and position in the supply chain. Such requirements may exclude smallholders who may be unable to fulfil certain evidence requirements.

These variables differ across markets. In the **EU**, for example, EUDR compliance (traceability and evidence of legality and deforestation-free) is becoming the key decision point on procurement, whilst there is a strong emphasis on RSPO certification (which inadvertently excludes many smallholders). In contrast, market requirements on imports are reportedly much less stringent in **India** – whilst this can make the Indian market accessible to smallholders, Indian importers are generally not demonstrating a commitment to supporting smallholders outside of their domestic production.

Inclusion of smallholders in supply chains must also mean inclusion of dealers. The central role of dealers in independent smallholder supply chains can obscure visibility to origin for actors beyond the mill, however they play a crucial operational and community role that connects independent smallholders to mills. Dealers play an essential role in the supply base and whilst it is challenging to reflect this in a procurement policy, it is important that they are supported.

The scope of smallholder inclusion must be broadened beyond supply chains. By looking beyond their own supply chains at a wider sourcing area, landscape or region, smallholder inclusion becomes more accessible to companies with limited visibility to origin, improves efficiency and strengthens resilience for future supply.

The enabling environment – including government action – is crucial for supporting this part of the supply chain. The role of dealers as intermediaries between independent smallholders and mills can obscure traceability and therefore access to supply chains. Support to dealers, such as through inclusion in national certification standards, could help to formalise or bring more structure to this part of the supply chain. Such action is already being taken in Malaysia through the MSPO standard. However, it is important that this is not at the detriment of the flexibility benefits and wider support that dealers provide to producers.

Overall, we need to address the issue of smallholder inclusion with more nuance. Independent smallholders do not all have the same livelihood characteristics or experience the same challenges – they vary in how they farm their land, how dependent they are on their farm for income, and their living circumstances. Approaches to strengthening smallholder inclusion should consider this nuance and how action needs to be varied or directed in a diverse supply base.