Background

Vegetable oil production around the world totals over 164 million tonnes per year, of which over 59 million tonnes is palm oil. Oil palm is the most productive vegetable oil crop, requiring ten times less land than other oil producing crops. Palm oil is used in about half of all supermarket products and demand is expected to increase as a result of a growing world population. The crop has expanded mostly in Southeast Asia, but is expected to spread rapidly in tropical Africa and Latin America.

Smallholder farmers produce around 40% of the world’s palm oil. As the crop is highly productive and profitable, the sector has the potential to lift producers out of poverty and make significant contributions to rural development. However, the expansion of oil palm plantations is also a major driver of deforestation, leading to biodiversity losses and greenhouse gas emissions. In addition, oil palm production has been linked to land conflicts — especially with indigenous people, and issues around labour conditions for plantation workers.

Palm oil production in Indonesia

Indonesia is the world’s biggest producer of palm oil, producing 31.5 million tons of crude palm oil and 3 million tons of palm kernel oil on 11.6 million hectares of land in 2016. Its total yearly value amounts to €23 billion. It provides on-farm employment to 1.2 households and generates an income for 1.6 million smallholder farmers, who manage around 40% of the oil palm cultivation area.

Many of Indonesia’s oil palm smallholders are transmigration farmers – impoverished smallholders from overpopulated Java and barren areas of Bali who were resettled on the outer islands of Indonesia like Kalimantan and Sumatra during the 1980s and 1990s. There they were assigned 2 hectare plots to establish a plantation. These smallholders can be under a long-term contract with a company, so-called ‘scheme smallholders, or operate independently.

Oil palm smallholders in Indonesia have an average annual yield of 12 to 14 ton per hectare, while corporate plantations attain a yield of 24 ton per hectare per year. Palm oil yields highly depend on the suitability of the location (soil, rainfall, drainage, etc.) and the use of fertilizer and management practices like weeding and pruning. Palm oil yields build up until the trees reach 15 years of age, level off until 25 years and then decline sharply. Many smallholders in Sumatera and Kalimantan are now faced with these declining yields as the oil palms in their plantations are now 20 years or older, causing declining incomes and many families to live in increasing poverty. Replanting is needed, which would cost around €3600 per hectare. Banks have little experience however in providing long-term replanting finance to smallholders due to the perceived high risks and costs involved.

In recent years, illegal oil palm expansion has been linked to widespread fires for land clearing. These fires cause smoke and air pollution hazards, threatening the health of thousands of people. Indonesian peat fires cause higher greenhouse gas emissions than the whole of Germany and have been classified as a violation of human rights by the World Health Organisation. In 2015, Kuala Lumpur and Singapore had to suspend flights due to the haze and the economic damage was estimated at €30 billion to the Indonesian economy.

SNV improves the livelihoods of oil palm smallholder producer families and workers while reducing the impact of the sector on forests.
SNV’s Sustainable Palm Oil programme improves yields and facilitates access to credit to enable oil palm replanting for smallholders, thereby increasing their living standards and removing incentives for deforestation. The programme reduces the impact of the sector on forests, enhancing climate change resilience and mitigation.

SNV aims to increase smallholder incomes, while supporting them to comply with sustainability standards. SNV also cooperates with palm oil mills (selected based on due diligence assessments) and engages with end buyers to ensure responsible production and sourcing throughout the oil palm value chain, in line with the Decent Work¹ agenda.

SNV’s work in the palm oil sector in Indonesia is carried out in Jambi and South Sumatra provinces. Our programme works on three interlinked levels to achieve the following goals:

- The farmer level: smallholders are supported to improve yields sustainably;
- The value chain: smallholder production needs to be traceable to facilitate their inclusion into sustainable supply chains.
- The landscape: palm oil plantation expansion needs to be diverted away from forests and important conservation areas, to minimize the risks of fires and deforestation.

**Supporting farmers to improve yields**

SNV focuses on independent smallholders as this group typically has limited access to adequate extension services, markets and credit, while scheme smallholders often receive company support. To support and incentivise these smallholders to make a transition to more sustainable production systems, SNV uses the Responsible Sourcing from Smallholders (RSS) approach. This approach aims to facilitate the inclusion of smallholders into sustainable supply chains, by helping them to implement basic responsible practices and supporting them to improve their production practices and livelihoods. Through the implementation of the RSS approach, SNV provides smallholders with the tools, knowledge and capacity to increase yields and incomes while reducing their impact on forest areas, in a first step towards sustainability certification.

The RSS approach consists of two pillars. The first pillar sets out core issues which smallholders must address to meet common sustainable sourcing commitments of oil palm processing mills and companies, such as issues related to land conflicts, deforestation, labour rights and working conditions. The second pillar requires these companies in return to support smallholders to improve their yields through better agricultural practices and strengthening smallholder cooperatives.

SNV works with smallholders, cooperatives and companies to implement the RSS framework in oil palm production areas in Indonesia. This is done through providing trainings on better management practices, raising environmental awareness, development of cooperatives, supporting smallholders to achieve certification, linking farmers to sustainable markets, buyer commitments, and facilitating access to long-term replanting finance.

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¹ Decent Work involves opportunities for work that are productive and deliver a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.
Creating traceability for smallholders

Companies committed to sustainable sourcing need to be able to demonstrate where their agricultural products are sourced from and under which conditions they have been produced. SNV, in collaboration with Akvo, has developed a transparent traceability system for collecting, evaluating and displaying geographically referenced data on yields, inputs and management. The tool can be used by companies to demonstrate that a supply chain is deforestation-free.

Furthermore, with the collected farm data and additional information on farmer cash flows, SNV and Financial Access can create customised replanting investment schemes for independent oil palm smallholders. Replanting ageing plantations can further improve yields and thus reduce the need for expansion.

Halting deforestation and guiding responsible plantation expansion

A thorough understanding of the landscape is required to guide oil palm expansion to suitable areas and design targeted interventions to avoid deforestation and forest and peat fires. SNV has developed a siting tool to identify options for sustainable expansion across the landscape. Information on forests, conservation areas and biodiversity is combined to produce maps that demonstrate which areas can be sustainably developed and in which areas agricultural expansion should be avoided. This information is shared with the farmers through environmental awareness trainings and forms the basis of conservation agreements with the communities and companies.

Principles

In engaging with smallholders, companies and mills, SNV adheres to the following principles:

- Market driven solutions
- Multi-stakeholder involvement & dialogue
- Improved governance & continuous improvement
- Mitigating & minimizing risks: This is done through due diligence screening of companies, reaching agreements with actors on which criteria to adhere to and the proposed activities and outcomes, continuous monitoring of company behaviour and ending collaboration if the criteria are violated.

Partnerships for responsible value chains

SNV works in close partnership with the Government of Indonesia, the processing companies Prosympac Agro Lestari and Sawit Mas Sejahtera, as well as other organisations such as SHARP, Financial Access, Meo Carbon and Forest Carbon. Each partner has a unique role to play in contributing to the complex challenge of achieving responsible palm oil value chains, which enhance smallholder livelihoods, bring business benefits to the companies involved and mitigate deforestation and environmental degradation across the landscape.

The two pillars of the RSS framework

Pillar 1: Minimum Core Issues
1. LAND RIGHTS AND CONFLICTS
2. DEFORESTATION AND LAND CONVERSION
3. LABOUR RIGHTS AND WORKING CONDITIONS

Pillar 2: Support for Smallholders
1. BETTER YIELDS AND FOOD SECURITY
2. IMPROVED LIVELIHOODS AND INSTITUTIONS
3. BETTER AGRICULTURAL PRACTICES

Collecting farm data with SNV's traceability tool
SNV is a not-for-profit international development organisation, working in Agriculture, Renewable Energy, and Water, Sanitation & Hygiene. Founded in the Netherlands 50 years ago, we have built a long-term, local presence in more than 30 countries in Asia, Africa and Latin America. Our global team of local and international advisors works with local partners to equip communities, businesses and organisations with the tools, knowledge and connections they need to increase their incomes and gain access to basic services – empowering them to break the cycle of poverty and guide their own development.

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