

# PALM OIL BAROMETER 2024

Consultation Paper



Procurement for Prosperity

**Solidaridad**

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# Introduction

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Over the last decade there's been much heated debate and substantial positive action taken in response to deforestation in the name of palm oil production. While the area of land being cleared to plant oil palm is thankfully in global decline, another equally serious issue remains.

Between 3 and 7 million oil palm smallholders are responsible for around 25-30 percent of the total palm oil supply<sup>1</sup>. Most smallholder oil palm growers live their lives month to month, not knowing whether the price of their crops will be hit by another flood or fluctuation, potentially devastating their land and income. The demands to produce more sustainably continue to pile up while the prices that buyers are willing to pay remain firmly out of smallholders' control.

In short, the palm oil industry is a challenging place to be a farmer. They are vulnerable for climate change related extreme weather events, and have to deal with more sustainability requirements. To date, the wider sector has avoided the big questions around poor value distribution, precarious income and price volatility that disproportionately impact small-scale producers, and yet hold the key to their prosperity.

In this paper we look at how focusing on the four dimensions of inclusivity; ownership, voice, risk and reward, has the potential to turn the tide on unequal value distribution and support both farmer livelihoods and more sustainable production.



*Flooded palm oil mill and plantations in Honduras. © Solidaridad*

## **PAYING THE PRICE FOR SUSTAINABILITY**

As with all crops, there is growing recognition that oil palm must be grown sustainably if we are to continue to meet demand and face today's climate crisis. Farmers are working on the frontline, facing worsening extreme weather conditions. They need more support on multiple levels to deal with the devastation that comes with an increasingly warm planet.

However, it's growers, of all sizes, who pay the price for sustainable oil palm farming while buyers and retailers pocket the majority of the value created in the supply chain for themselves. This has to change. The cost of production and, in particular, more sustainable production must be more equally distributed throughout the supply chain.

In the first edition of the **Palm Oil Barometer**,<sup>2</sup> published in 2022, we wrote: "To minimize risk and take advantage of opportunities, the key point is to acknowledge smallholder farmers' interests and agenda setting as the point of departure, rather than implementing pre-conceived ideas". In 2024 this is still true. In this second edition we continue to contribute to the discussion by unpacking more about value distribution and purchasing practices, and to stimulate the debate.

The central question in the second Palm Oil Barometer is thus: In a globally operating sector that depends on market mechanisms, how can we establish a system that truly includes and supports growers and smallholder farmers to produce in a more sustainable way?

In the first chapter of this paper we explain the current situation and growing challenges that smallholders face. In the second chapter we present our recommendations on how responsible procurement practices can offer real solutions to these global issues.

In the second edition of the Palm Oil Barometer, to be published late 2024/early 2025, we will include three continental deep dives reflecting the state of the palm oil industry in Africa, Latin-America and Asia, along with a global overview of sustainability issues in the sector.

The production is guided and supported by various smallholder representative organisations and experts. These draft versions of chapters one and two will be enriched with the feedback collected from our network during the consultation phase.

We hope the second Palm Oil Barometer will help to drive the agenda forward and bring us closer to living incomes for smallholder farmers growing oil palm.



Palm oil farmer, Ghana. © Chikis Studios / Solidaridad

# 1

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“These aging trees urgently need replanting to maintain productivity, but that comes at a price: several years of reduced yields and income. For farmers, this transition can be a make-or-break moment.”

**Lesly Vera, Solidaridad Peru**

# The need for more inclusivity in the palm oil value chain

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## 1.1 DEFINING SMALLHOLDERS IN THE OIL PALM VALUE CHAIN

It's not easy to define an oil palm smallholder. These farmers contribute to the palm oil supply chain in a variety of ways, with significant differences both between and within countries. They follow a wide range of land use strategies and models of social organization. Commonly, families operate as independent units and pursue their own livelihood strategies with a combination of different production activities to generate household income.<sup>3</sup> A typical oil palm plot is below five hectares, despite the fact that the threshold for smallholder farmers is set at 25 hectares in Indonesia and at 40 hectares in Malaysia.<sup>4</sup> To learn more about the specific circumstances facing oil palm smallholders in these regions, please refer to our continental deep dive chapters (to be published in the final palm oil barometer).

Smallholder farmers account for an estimated 27 percent of the total cultivated land area and between 25 and 30 percent of global production.<sup>5</sup> Large plantations often integrate smallholder plots through outgrower schemes or rental agreements. These so-called scheme smallholders are specialized in oil palm farming and rely on the plantation company for improved planting stock, fertilization and training.

When we talk about smallholders we usually refer to independent smallholders who have freedom to choose how they operate their land. The vast majority of independent smallholders rely on diversified agricultural production to make a living, where the linkages between forest, farm and land support human well-being and a range of ecosystem services.<sup>6</sup> These smallholders are developing their operations independently from the large plantations. They organize themselves in farmer groups, cooperatives and associations to collect and sell their fresh fruit bunches (FFB) to the mill that offers the best price. Or they depend on intermediaries for selling their produce as well as for access to inputs and credit.

## SMALLHOLDER DEFINITION

The term oil palm smallholders or farmers often lacks a precise definition, but in practice tends to refer to differences in size and level of reliance on family labor. The farm provides the majority of income to the family, and in turn the family provides the majority of labor on their farm.<sup>7</sup> This aligns with the RSPO's definition:

*“Smallholders are those managing palm oil plantations of 50 hectares or less. They can operate either independently or in collaboration with companies”.* In this definition, the RSPO distinguishes two types of smallholders: scheme smallholders and independent smallholders.

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

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

Many smallholders are attracted to growing oil palm for its greater yield and potentially higher prices, as well as the fact that it can be harvested year-round, providing a steady cash flow. Compared to other commodities like cocoa, coffee or tea, oil palm is seen as a profitable crop and price is rarely the subject of public debate. This is likely linked to the fact that palm oil is generally more profitable compared to other crops and that, in most cases, smallholders have larger plots than their peers in other crops.

However, they face constant changes in a fast-moving market. Their incomes remain precarious, reliant on factors that are out of their control. At the same time food manufacturers and consumer goods (FMCG) companies and retailers manage to consistently generate profits on products which include palm oil.

## 1.2 SMALLHOLDER INCLUSIVITY

It is time to look at building palm oil value chains through an inclusive lens. Interesting things have been written on the topic of smallholder inclusivity. One developed model<sup>8</sup> suggests assessing four dimensions of inclusion;

- Ownership: deals with the question of who owns what part of the business, and assets such as land and processing facilities.
- Voice: the ability of marginalized actors to influence key business decisions, including their weight in decision-making, arrangements for review and grievance, and mechanisms for dealing with asymmetries in information access.
- Risk: including commercial (production, supply and market) risks, but also wider risks such as political and reputational ones.
- Reward: the sharing of economic costs and benefits, including price setting and finance arrangements.

Looking at these dimensions allows for a clearer perspective on inclusiveness and a better understanding of the actual conditions under which smallholders are included in business practices.<sup>9</sup> Many companies think they are smallholder inclusive when they source from smallholders. But that is only the start. To



deliver on all four aspects of inclusive agribusiness<sup>9</sup>, we must be aware of the interlinkages. For instance, ownership can influence voice, and voice in price-setting crucially affects reward. Ownership influences risk, as a jointly owned business also involves sharing of business risks.

In terms of the palm oil sector, we can highlight interlinked elements like income and value distribution, corporate transparency or participation in multi-stakeholder initiatives.

In this paper, we take the four aspects of inclusion and their interlinkages as guidelines for procurement practices.



*Smallholder farmers get support in digital administration. © Chikis Studios, Ghana.*

### **1.3 RSPO AND SMALLHOLDER INCLUSIVITY**

Many players refer to the Roundtable on Sustainable Palm Oil (RSPO) for sustainability and smallholder inclusivity in the palm oil value chain. While RSPO is an important tool to drive improvements in the palm oil value chain such as labor standards and the recognition of rights of indigenous communities, it does not have a good track record with respect to the inclusivity of smallholders.

Two decades since its foundation, independent smallholders now make up 1.5-2 percent of RSPO certified volume. In 2024, this represents around 50,000 smallholders<sup>11</sup> and around 130,000 hectares of RSPO certified land (2.5% of all RSPO certified land). New data from the RSPO suggests there has been a remarkable growth in numbers of certified smallholders in recent years, however this still represents only a few percent of all global smallholders<sup>12</sup>.

Instead the push for segregated RSPO certified material pushes smallholders out of RSPO certified value chains, as the costs of smallholder certification are relatively high compared to the benefits. So, we can say, the uptake and increase of RSPO certified material does not necessarily drive more inclusive value chains, or improved Independent smallholder farming practices.

## FARMER PROSPERITY IS A HOUSE OF CARDS



### 1.4 SMALLHOLDER PRECARIETY

The amount a smallholder earns is reliant on a number of external conditions. Their income situation is comparable to a house of cards (see illustration). The price of smallholders' FFB is an important factor in just how precarious their position is. Farmer income is influenced by a range of factors including:

- The implementation of a pricing mechanism formula that's often prescribed by local or national governments.
- The world market price, as the FFB-price received by smallholders often relies on global prices.
- The price farmers pay for inputs like fertilizer and pesticides also depend on global market prices.
- Whether the farmer or agent is selling to intermediaries or directly to the mill.
- The state and availability of local infrastructure and transport logistics
- The number and capacity of mills that can be reached before the FFB starts to deteriorate.
- The reliability and fairness of weighing scales and quality control procedures.
- The objective assessment of FFB grading by the mill and how transparent it is about its grading system.
- The Oil Extraction Rate (OER), which in turn relies on the quality of the FFB.

We are currently seeing three key developments that make the topic of smallholder inclusivity particularly relevant:

1. increasing vulnerability for climate change related extreme weather events
2. increasing price volatility
3. increasing sustainability requirements

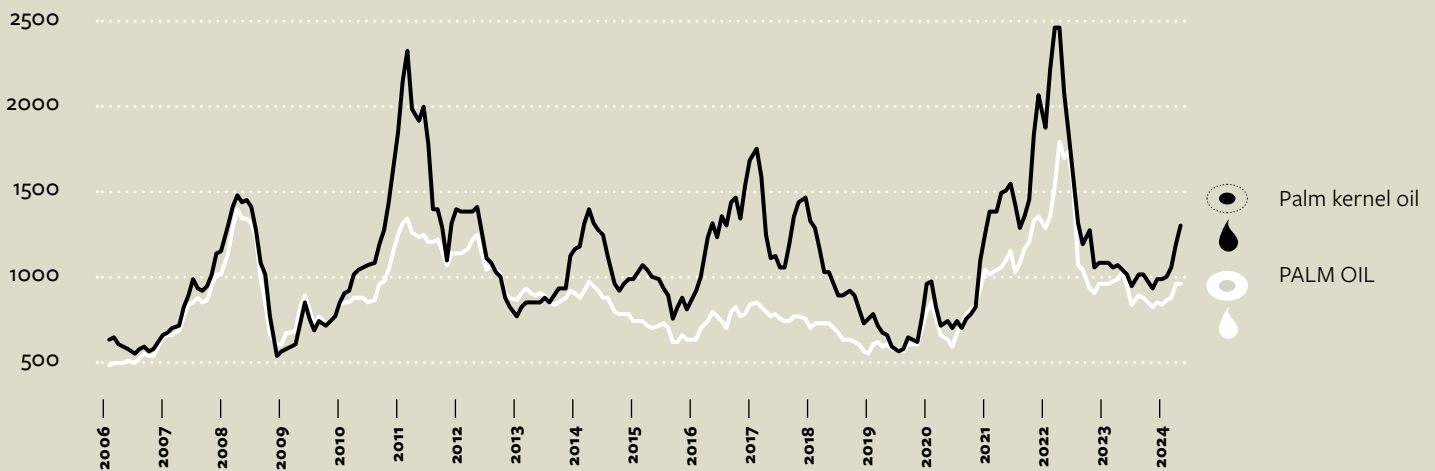
## 1. CLIMATE CHANGE VULNERABILITY

We see increasingly regular extreme weather events due to climate change, such as flooding and extended periods of droughts. Such events cause costs to rise for farm inputs and further price volatility. Smallholders often lack access to the knowledge and capital to overcome these problems.<sup>13</sup>

## 2. INCREASING PRICE VOLATILITY

In the past four years we have seen palm oil prices swing between 576 US dollars in May 2020 and 1,776 US dollars in March 2022 and down below 1,000 US dollars in 2023 and 2024.<sup>14</sup>

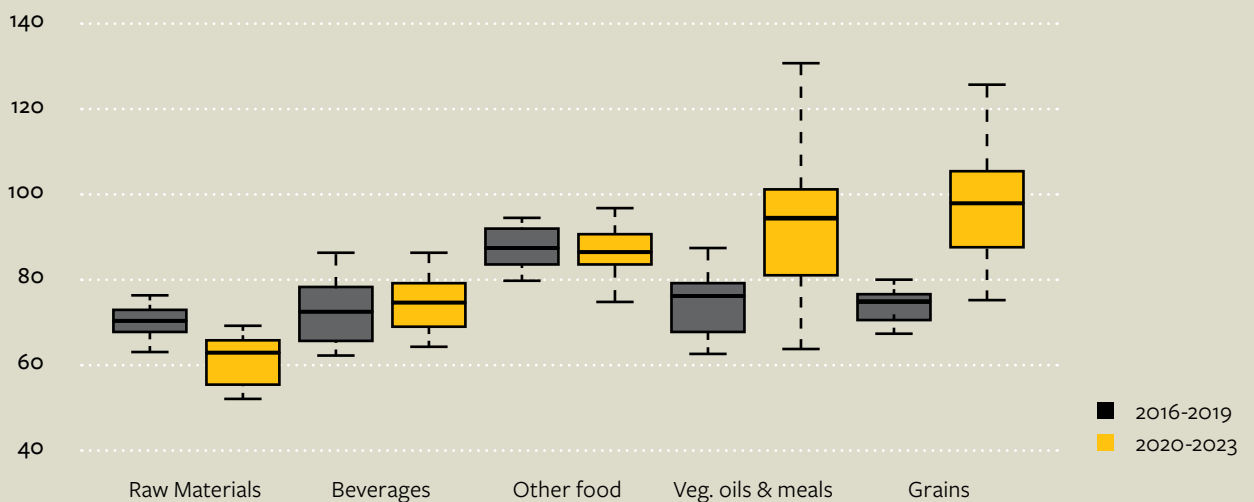
FIGURE 1 **PALM OIL AND PALM KERNEL OIL PRICES 2006-2024**  
(US\$/mt)



Source: IndexMundi (2024), Palm oil Monthly Price - US Dollars per Metric Ton - January 2006 - August 2024, online: <https://www.indexmundi.com/commodities/?commodity=palm-oil&months=240>  
IndexMundi (2024), Palm Kernel Oil Monthly Price - US Dollars per Metric Ton - January 2006 - August 2024, online: <https://www.indexmundi.com/commodities/?commodity=palm-kernel-oil&months=240>

According to UNCTAD, between 2020 and 2023, the price volatility for vegetable oils and meals (which includes palm oil) has significantly increased compared to the 2016-2019 period.<sup>15</sup> This means that for farmers their income has become more unpredictable.

FIGURE 2 **COMPARATIVE VOLATILITY OF REAL AGRI PRICE INDEXES**  
Real Price Index (2010=100)



Source: Cárcamo-Díaz, R. (2024, 3 July), Global food markets: Implications for international trade and competition and consumer policies, Fifteenth Meeting of the UNCTAD Research Partnership Platform, online: [unctad.org/system/files/non-official-document/ccpb\\_IGRRPP2024\\_presentation\\_Carcamo\\_en.pdf](https://unctad.org/system/files/non-official-document/ccpb_IGRRPP2024_presentation_Carcamo_en.pdf)

## INSIGHTS ON ACHIEVING A LIVING INCOME IN A HIGH-PRICE MARKET

### UGANDA

**Alex Amanyia:** “Based on what we see in our projects, it is clear that with oil palm growing, a Ugandan oil palm farmer can reach a living income. Still, to actually make a living income, high and stable prices are a necessity. Increasing the productivity of smallholder farmers from currently 14 tonnes/ha of FFB close to the 21 tonnes/ha that big estates are producing can also guarantee a living income for smallholder farmers. The oil palm sector in Uganda is still young. We need constant monitoring of the cost of living to ensure the prevailing prices match a living income”.

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### GHANA

**Paa Kwesi Forson:** “It is clear that with the current low yields and small farm sizes, the average oil palm farmer cannot reach a living income. Since 2023, FFB collectors and mills in Ghana are now mandated to pay at least the monthly minimum price set by the industry and endorsed by the Government of Ghana. Prices have been good and competitive over the last couple of years. Even with these minimum prices, it will be difficult for smallholders to make a living income with their average farm size of two hectares and low yields. Farmers therefore can increase their yields and consider additional income raising activities to secure a living income.”

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### PERU

**Lesly Vera:** “Take, for example, one of our farmers in the Amazonía Connect project in Peru. With just 15 hectares of oil palm, this farmer earned in 2023 more than double the living income in the Amazon, far outperforming those cultivating cocoa, coffee, or other crops.

But there’s a catch: fertilizers, vital to maintaining these high yields, now consume up to 40% of total production costs. This burden has surged over the last five years due to national political instability, increasing exchange rates and fertilizer prices, and slashing profits.

Even more critical – over 40% of oil palm plantations in the region are between 25 and 30 years old. These aging trees urgently need replanting to maintain productivity, but that comes at a price: several years of reduced yields and income. For farmers, this transition can be a make-or-break moment.

This is why innovation is not just an opportunity, but a necessity. Through targeted technology like fertigation, we can slash input costs, boost yields, and smooth the replanting process – allowing farmers to not only survive these challenges but thrive.”

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### COLOMBIA

**Maria Goretti:** “We assessed living income data from 2021 from two regions: Tibu in the department of Norte de Santander, and the North Zone of the department of Magdalena. The sample size was 39 smallholder oil palm producing families. The average producer with nine hectares of oil palm generated a net income of 1,797 euros per hectare in 2021. This resulted in a total annual income of 16,243 euros. With the 2021 living income benchmark for a reference family of five members at 7,465 euros per year, it is clear that with the prices this year these farmers can make a living income from oil palm growing”.

### 3. SUSTAINABILITY REQUIREMENTS AND LACK OF REWARD

Over the last two decades, the industry, governments and civil society have made serious efforts to contribute to more sustainable oil palm production. This is largely due to public pressure and mounting evidence of the dangers of unsustainable oil palm expansion and production practices.

Voluntary certification systems, such as RSPO and APSColombia have been set up and corporate actors have made commitments regarding implementation and also set commitments to initiatives such as the ‘No Deforestation, No Peat and No Exploitation’ (NDPE) commitment, pioneered by the palm oil industry. Such initiatives seek to ensure that oil palm used in global markets is not associated with negative environmental and human rights impacts. These efforts have been complemented in recent years by government measures in producing countries (the ISPO and MSPO schemes) and new regulation in consuming countries, specifically the European Union’s Deforestation Regulation (EUDR) and Corporate Sustainability Due Diligence Directive (CSDDD).

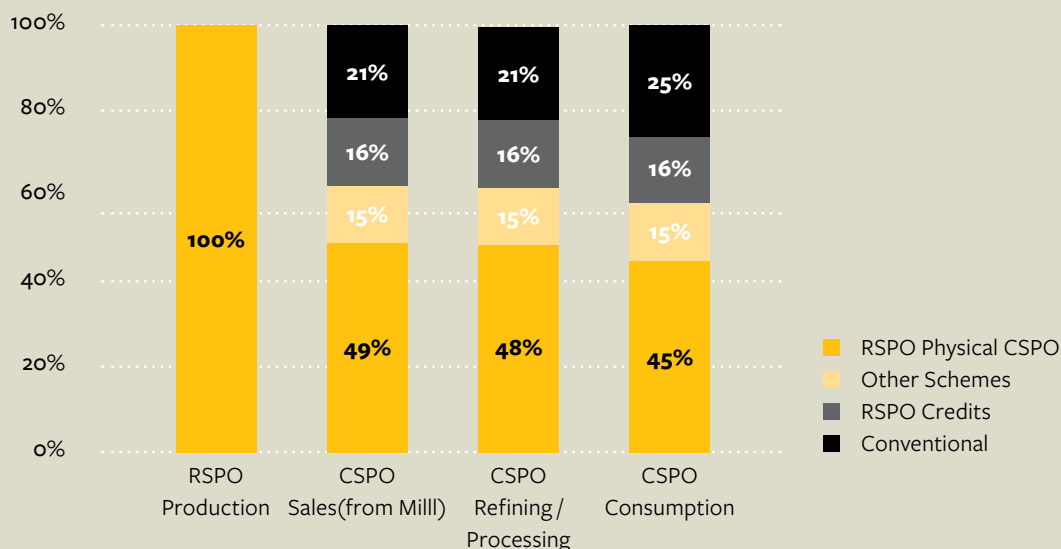
However, while these efforts are noteworthy, they have some serious drawbacks as regards oil palm smallholders. Certifications and NDPE commitments are easier for larger plantations to achieve, thanks to access to substantial financial resources. These same initiatives are more complex for smallholders to comply with. In absence of compliance, their access to profitable markets is blocked. Likewise the EUDR, with its stringent traceability requirements, risks excluding many compliant smallholders from European supply chains, because they do not have the means to prove their compliance.

In this context, the efforts to push for sustainability have become a barrier to trade or a burden for smallholders. Introducing compliance with sustainability requirements in oil palm landscapes often requires investment and training, and even when the requirements are met, there is no guarantee that sustainable smallholders will benefit financially from this arrangement. A prime example of this is the RSPO certification system (see also paragraph 1.3).

#### Insufficient premium payments for physical RSPO and Independent Smallholder Credits

Not all RSPO-certified volumes are sold as such, whether it is regular CSPO or Independent Smallholder-CSPO.<sup>16</sup>

FIGURE 3 CSPO PRODUCTION AND UPTAKE IN PREMIUM MARKETS (2022)



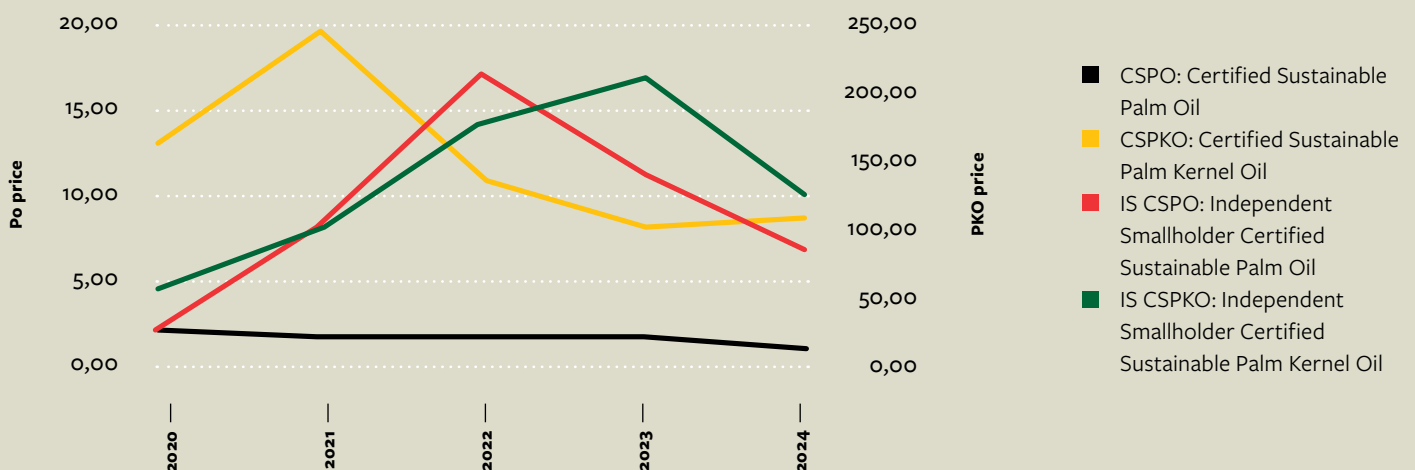
Source: RSPO (2024), Impact Update 2023, online: [https://rspo.org/wp-content/uploads/Impact-Update-2023\\_.pdf](https://rspo.org/wp-content/uploads/Impact-Update-2023_.pdf)

Figure 3 shows global CSPO production in 2022 versus the actual sales of these certified volumes. RSPO explains: “of the 15.4 million metric tonnes (MT) in CSPO supply (Figure 1), 49 percent was sold as RSPO Physical (Mass Balance, Segregated or Identity Preserved) and 15 percent as RSPO Credits, totalling 9.7 million MT, up 8.1 percent from 2021. Sales under other schemes fell to 16 percent from 19 percent, with conventional steady at 21 percent. Downstream, supply chain inefficiencies reduced RSPO volumes used in consumer products to 9.2 million MT, or 12.1 percent of global palm oil consumption (75.4 million MT).”<sup>17</sup>

### Sales of Independent Smallholder Credits

RSPO certified smallholders can sell their certified volume physically or via so-called Independent Smallholder Credits. The credit system was set up to ensure that independent smallholders who are not in proximity of a certified mill, are still able to sell to access a reward for certification. This trade can be done via the Palmtrace platform. However, recently the market prices for credits have been steadily decreasing. The latest prices can be seen via the RSPO credit market place.<sup>18</sup> See figure 4 for an overview.

FIGURE 4 **AVERAGE CREDIT PRICES PER TON CERTIFIED PALM OIL PRODUCT**  
(US\$/t)



Source: RSPO (2024), “Market trends”, online: [rspo.org/as-an-organisation/rspo-credits/market-trends/](https://rspo.org/as-an-organisation/rspo-credits/market-trends/), viewed in May 2024. Own calculations based on RSPO data.

Furthermore, even smallholders in the supply base of RSPO certified mills, who can sell their certified volume physically segregated, are not well rewarded. De Vos et al found in 2023 that: “certification did not lead to new agreements on prices, uptake or grading.”<sup>19</sup> One trader told us: “If our buyers don’t want to pay the RSPO premium, we do not pay the premium to farmers”.

In summary, this means when a smallholder farmer has gone through the RSPO certification process and fully integrated the principles and criteria in its work, there is no guarantee that they will receive a premium for it.<sup>20</sup> The same applies for larger growers: those who have implemented sustainability measures on labor and human rights and environmental impacts are frequently unable to recuperate the associated costs from the market. The Solidaridad Mexico team noted that farmers expressed their frustration that, even after going through all the certification processes, and after years of maintaining their certification, they received minimal financial reward for it.

It is important to note that not paying for certification isn't just an RSPO issue. The situation is similar when it comes to buyers paying a price that at least covers costs for compliance with ISPO or MSPO certified palm oil.<sup>21</sup>

### **Ecosystem payments and markets do not yet work for smallholders**

The oil palm sector is a significant contributor to global greenhouse gas (GHG) emissions. The major sources of emissions are:

- deforestation
- peatland degradation
- fertilizer and pesticide use
- and post harvest activities such as processing of oil palm fruit and transportation.

Specific to oil palm production is the palm oil mill effluent (POME) that can emit large amounts of methane (CH<sub>4</sub>), which has much stronger GHG warming potential than CO<sub>2</sub>. While huge steps have been made in the past decade, there is still a long way to go in decreasing GHG emissions, regenerating forests and peatlands and switching to less polluting production methods.<sup>22</sup> More and more companies in the supply chain are aware of this and have set targets on scope 3 emissions, some of them already approved by the SBTI.<sup>23</sup>

We hear from many companies that they are interested in reducing their emissions, for example by carbon insetting in landscape projects.<sup>24</sup> But major producers and buyers have not yet turned their fresh commitments into action plans. In setting up emission reduction plans, it is essential that companies take into account the position of oil palm smallholders.

There are several effective options for downstream actors to minimize the GHG impact of oil palm production while creating positive economic conditions for smallholder farmers and the small and medium processing industry. This includes sustainable land-use practices and agroforestry. Professor Maja Slingerland of Wageningen University & Research Sustain Palm Program adds: "land saving approaches can also play an important role in GHG emission reduction, for example, by using intercropping and livestock grazing in existing oil palm plantations. Or, by adding value to oil palm biomass by making wood or sugar from end-of-life oil palm trunks. In this way, we remove the need to use more land for wood or sugar production, while generating additional income. Furthermore, replacing oil palm on peat by paludiculture with marketable products and carbon credits would largely reduce GHG emissions from peatland and provide additional farmers income."<sup>25</sup>

Smallholder farmers have increasingly more options to reduce their GHG emissions and sequester carbon, which opens the door to receiving an income for their ecosystem services on global carbon markets.

Solidaridad identified a selection of promising climate smart agricultural practices for the oil palm sector in an internal 2021 study. We found that implementing any one of the following 'triple win' practices simultaneously results in higher productivity, better climate adaptation and GHG mitigation:

- good drainage
- water table management
- reduced or minimum tillage
- crop residue management (mulching)
- use of cover crops
- organic fertilizer application
- conducting land assessments to identify suitable planting areas
- recycling biomass waste

In the coffee and cocoa sectors Solidaridad has effectively implemented **payment for carbon sequestration** systems.<sup>26</sup> However, in the palm oil sector this concept is still very new. **Solidaridad's pilot project with Uganda's Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)** is working towards such a system.<sup>27</sup> It aims to facilitate farmers' participation in international carbon markets, where they can sell their carbon removal units to incentivize carbon sequestration efforts. Taking into account oil palm's long lifecycle, the project promotes the importance of adopting resilience-building strategies, including the implementation of climate mitigation and climate adaptation interventions. Similarly, Solidaridad and IDH's **NISCOPS** (National Initiatives for Sustainable and Climate-Smart Oil Palm Smallholders) II project positions carbon financing in palm oil as a possible payment for ecosystem service (PES) that could generate additional income and incentive for smallholder farmers.<sup>28</sup>

Another approach **currently being explored** by Solidaridad and its partners is biochar, whereby organic waste is treated and stored in the soil as a means of removing carbon dioxide from the atmosphere.<sup>29</sup> Applying biochar to soil can increase its water and nutrient holding capacity, acting as a carbon sponge for rain and an alternative to chemical fertilizers. Governments and companies should reward farmers for sequestering carbon in the soil with biochar.

## CHAPTER 1 SUMMARY

### **A living income for oil palm smallholders is essential**

Price volatility in the palm oil sector is high and shows no sign of stabilizing.<sup>30</sup> Climate change related extreme weather conditions frequently impact farmers and will only get worse.<sup>31</sup> This means that farmers can make a living income in one period, and struggle to make ends meet in another. Currently, the palm oil sector faces growing sustainability demands, but responding to requirements often leads to the exclusion of smallholder farmers from the most profitable markets.

To contribute to a more resilient sector, ensure farmer livelihoods, implement existing voluntary standards and prepare for upcoming regulation, we must take farmer realities into account. This means looking at the value chain through an inclusive lens. Do smallholder farmers have ownership, can their voice be heard, are they able to control risk and are they sufficiently rewarded through the payment of fair prices? In the next chapter we will look at how procurement practices can respond to these needs.





# 2

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“During negotiations buyers are constantly stressing that materials must be delivered in accordance with NDPE-requirements, but smallholder inclusion and reward for sustainable performance are not deal-breakers for them.”

**Palm oil trader, in an interview with Solidaridad.**

# Procurement for Prosperity

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## 2.1 INTRODUCTION

In the first Palm Oil Barometer, we identified that there is enough value in the oil palm sector for all actors to make a profit. However, value addition in the supply chain does not make its way to farmers. While smallholders are in a precarious position and often struggle to make ends meet, at the downstream end of the chain, food manufacturers, retailers and consumer goods companies generate decent revenues for palm oil products.<sup>32</sup>

While guidelines for Sustainable Procurement of palm oil do exist, none of them – as far as we have found – explicitly provides approaches to source in a smallholder-inclusive way.

In this chapter we will lay out a vision for both sustainable and inclusive procurement practices in the palm oil value chain. To structure our recommendations for buyers of palm products, we have used the four dimensions of inclusivity detailed in paragraph 1.2; ownership, voice, risk and reward.

We build on research, interviews with major palm oil buyers, case studies from the field and solutions and best practices we have seen work successfully in other sectors. Among others, we draw inspiration from:

- the Common Framework for Responsible Purchasing Practices (developed for the textile sector and adjusted for the food sector)<sup>33</sup>
- Tony's Chocolonely's 5 Sourcing Principles (cocoa)<sup>34</sup> and
- the VOICE paper on responsible purchasing practices (specific to the cocoa sector).<sup>35</sup>

Finally, we share tangible examples of what buyers, retailers and other powerful downstream actors can do to ensure smallholder-inclusive supply chains that cover the cost of living incomes and wages, farm maintenance and sustainable production. We hope, and believe, they can provide a great foundation for the industry as a whole.

## 2.2 FROM 'SUSTAINABLE SOURCING' TO INCLUSIVE PROCUREMENT

When we talk about sustainable sourcing, we're often referring to a list of sourcing conditions that buyers demand from their suppliers. This way, buyers impose sourcing conditions on suppliers. Downstream buyers expect their suppliers to be NDPE-compliant. To get certified. To assure quality. To fill in

documents, draft policies and deliver data. But when we asked a number of companies whether they paid a price that ensured their suppliers could produce in a sustainable manner, the answer was no. Fair pricing is almost never part of the sustainable procurement process.

But, as demonstrated in our last chapter, such sustainability requirements do not directly promote or support the prosperity or sustainability of oil palm smallholders. As one trader put it during an interview conducted for this report: “Buyers are constantly stressing for NDPE-compliance in our negotiations, but smallholder inclusion and reward for sustainable performance are not deal-breakers for them”.

To drive more smallholder inclusive palm oil value chains, we will need to transition from buyers imposing a check-list of sustainability requirements, to systematically supporting suppliers to produce sustainably. If a company wants to truly make an impact on sustainability with its procurement system, the key is a responsible and inclusive approach.

To develop such an approach we use the term ‘procurement practices’, rather than ‘purchasing’ or ‘sourcing’ practices. While procurement is a strategic process, sourcing or purchasing refer more to the transactional function of actual sourcing and acquiring products and services, focusing on short term goals around quantity, costs and timing. Procurement practices, on the other hand, have the potential to support and enable key improvements in global supply chains, including contributing to the payment of living incomes and living wages.

We also see a role here for the palm oil watchdogs. We see a lack of importance placed on inclusive procurement reflected in the dominant palm oil sustainable benchmarks. RSPO’s Shared Responsibility Scorecard<sup>36</sup> does not include an indicator on inclusive procurement. And while ZSL’s influential SPOTT ranking<sup>37</sup> includes indicators on labor rights and smallholder support programmes, indicators specific to pricing, payments, or contract conditions are not yet included. And the WWF Palm Oil Buyers Scorecard<sup>38</sup> procurement indicators are limited to CSPO uptake. These benchmarks are influential in nudging palm oil companies towards better policies and practices. We want to ensure that these benchmarks also push companies in the direction of smallholder inclusive procurement.

### **2.3 WHY SHOULD DOWNSTREAM COMPANIES CHANGE THEIR PROCUREMENT PRACTICES?**

The first reason a company should adapt its procurement practices is from a perspective of self interest. When farmers receive a fair price that allows them to earn a living income, they can invest in their farms, which supports higher yields and creates an overall more resilient sector. This is particularly relevant when considering that the days of large-scale expansion are behind us; if we want production volumes to grow, this must come through higher yields, not more land use. Allowing farmers to earn a living income year-round creates a win-win situation. Smallholder farmers are becoming increasingly important to businesses.

Secondly, companies have a responsibility to the planet and to the people at the start of the value chain. Procurement practices that take into account the climate crisis are just one essential step companies can take to mitigate the difficult circumstances smallholders find themselves in. As noted by WWF in their 2024 Palm Oil Score Card “While a handful of companies have taken commendable strides in eliminating deforestation, conversion, and human rights abuses from their palm oil supply chains, the industry as a whole is at a pivotal juncture. It demands more than isolated efforts; it requires a seismic shift. Every palm oil buyer must rise to the occasion, transcending current boundaries to deliver transformative impact at a scale and pace that our planet urgently needs.”<sup>39</sup> We couldn’t agree more: we require a seismic shift to achieve smallholder inclusivity and living incomes. And we think that this is not possible without a debate on procurement.

A third reason companies must review their procurement practices is in response to current obligatory and voluntary frameworks, alongside those that will soon enter into force. Both the UN Guiding Principles on Business and Human Rights<sup>40</sup> and the OECD guidance for the agricultural and garment sectors<sup>41</sup> clearly state that companies have to take responsibility for human rights across the whole value chain. And RSPO certification (Criterion 5.1) requires: “The unit of certification deals fairly and transparently with all smallholders (independent and scheme) and other local businesses.”<sup>42</sup> Fairness and respect for human rights requires building transparent, direct and long-term relationships within value chains as a basis for risk and value sharing. Fair price setting must be part of this.

With the passage of both the EUDR and the EU’s Corporate Sustainability Due Diligence Directive (CSDDD), companies operating in Europe will be required to eliminate deforestation from their supply chains. Companies will also be asked to address any human rights issues faced by their suppliers. At present there is a lot of attention on the EUDR. However, when the CSDDD comes into force, companies will be required to look at the impacts of their practices, and how to mitigate them. Zero deforestation and smallholder inclusion are very different goals that must be pursued at the same time. A procurement policy should look at those developments in an integrated way.

## **2.4 PROCUREMENT FOR PROSPERITY: RECOMMENDATIONS TO DELIVER INCLUSIVITY**

As explained above, we have made an effort to define a set of recommendations for inclusive procurement for companies buying palm products. By following these recommendations, companies can lead on the creation of more inclusive palm oil value chains. We have categorized the recommendations into the four main principles, The four principles of Procurement for Prosperity, or PPPP:

- 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

To highlight the link between the concept of smallholder inclusivity and our recommendations we have – where applicable – ‘stamped’ the principles and recommendations with the appropriate smallholder inclusivity dimension.

### PRINCIPLE 1

#### **POLICY: FORMULATE INTERNAL POLICY, ENSURE COMMITMENT AND IMPLEMENTATION**

In order to implement changes to procurement practices you must have leadership buy-in and commitment. This includes integrating procurement practices into strategy and decision making processes and establishing external reporting, internal KPIs, accountability and training.

A good question to ask is; how can we make sure our procurement practices drive inclusive value chains, rather than exclude smallholders? This is relevant when we consider that procurement practices largely focus on driving EUDR and NDPE compliance while securing RSPO segregated material, and not on smallholder inclusion. We need different practices to achieve inclusion.

To ensure internal commitment and coherence in procurement practices, companies should consider:

**Strategy**

- Gain support: Ensure top leadership commitment for Procurement for Prosperity, allocating sufficient resources, raising awareness across departments and identifying champions to drive action and implementation across key departments and functions.
- Strategy: Ensure Purchasing for Prosperity practices are formally integrated in the company’s overall strategy, management systems and sourcing strategy. Procurement and sustainability departments need to be in close contact. We hear that currently buying sustainable as a target is often combined with buying cheap. This leads to contradiction and squeezing the producers.
- Consider engaging in collaborative action. While a single company can start to make a change, we need collective action to scale-up relevant initiatives. This could involve support for the introduction of the concept of a living income in RSPO or participation in platforms like the Palm Oil Collaboration Group<sup>43</sup> or the Retailers Palm Oil Group.<sup>44</sup>

**Procurement policy**

**RISK**

- Review sourcing policies and practices with respect to their impacts on smallholder inclusivity and avoid excluding smallholders. Consider the difference between sourcing practices (short-term focus) and procurement strategy (long-term focus).

**RISK**

- Make smallholder inclusivity a topic of conversation in procurement decisions and negotiations. If there is limited visibility on the inclusion of smallholders and the potential impacts of policies, discuss the impacts of policies with suppliers to build understanding.

**REWARD**

- Include a KPI on the percentage of smallholder farmers in your value chain that earn a living income.

**REWARD**

- Look into opportunities and information to ensure payments of Living Income Reference Prices and set targets to contribute to the Living Income of smallholders in your supply chain. For support with this: Solidaridad’s NISCOPS II partner IDH is leading the development of living income benchmarks.

**REWARD**

- Look for ways to promote smallholder inclusion by your suppliers and adjust contract conditions in favor of the most smallholder inclusive suppliers and those paying/ ensuring a living income. It could even be considered to set a minimum target sourcing of smallholders. For example:
  - PepsiCo said in 2022: “As part of our commitment to support smallholders, we have decided to maintain a minimum 95% volume as RSPO-Certified sustainable palm oil from physical supply chain options, with the balance being made up exclusively of Independent Smallholder Credits”.<sup>45</sup>
  - L’Oreal says: “Among [our] RSPO MB certified volumes, 25.4% of them are produced by independent smallholders as part of sustainable field projects implemented by L’Oréal”.<sup>46</sup>

**Recommendations for actors building EUDR compliant supply chains:**

- For downstream actors:
  - Avoid restricting yourselves to “safe” suppliers, but rather find ways to include smallholders on PPPP terms.
  - share the responsibility for activities or investments to ensure EUDR compliance for smallholders supply (geolocations, traceability, zero deforestation, legal compliance (see for more suggestion recommendation 4 on support))
- For companies buying FFB: Avoid smallholder exclusion and promote inclusion; Look for ways to organize compliance; (see for more suggestion recommendation 4 on support)

PRINCIPLE 2

**IMPLEMENT FAIR TRADING TERMS, INCLUDING FAIR PRICING AND PAYMENT TERMS AND REWARD SUSTAINABLE PERFORMANCE**

Generally speaking, within the palm oil supply chain, downstream companies have the most power. They set trading conditions that impact the whole value chain. They capture most of the value, while players at

the beginning of the supply chain are most vulnerable, increasingly subject to price volatility and climate shocks. This makes it hard to ensure resilient production planning.

## REWARD

We believe companies are responsible for enabling farmers to earn a living income. We recommend researching the specifics of living incomes in the regions from which you purchase, ensuring that you pay at least the local living income. Whether you're a retailer, brand or trader, you should know how to calculate the living income gap of farmers in your supply chain. You should commit to a time-bound, gender-sensitive goal to close this gap, including regular assessment of the payment of a living income.

Our NISCOPS II partner IDH has taken on the task of better researching and defining living income in the palm oil value chain and creating tools to support buyers.<sup>47</sup> The outcome of this work is openly available for companies to adopt on a voluntary basis.

## REWARD

Principle 2 also focuses on rewarding smallholders for more sustainable performance. Fast-moving consumer goods companies struggle to effectively reward their suppliers for better performance. A common excuse for this is that consumers are not willing to pay for sustainability and therefore they cannot pay higher prices for sustainability. However, it is possible, and there are tangible examples, of how rewarding farmers for sustainable performance works in practice.

## OWNERSHIP RISK REWARD

One approach is to ensure that payment conditions and contracts favor the most sustainable suppliers. One trader we interviewed said: "We can adjust payment terms to the advantage of sustainable suppliers, sourcing higher volumes from parties that deliver on sustainability. For example, we regularly ask suppliers if they are setting up smallholder projects where we can commit to sourcing this volume. We think that this improves sustainability at a grower level and it helps us to strengthen our supplier relationships".

This principle also includes the creation of longer term contracts: For example, one fast-moving consumer goods company told us that they prefer long-term partnerships, even when this is established through short-term contracts. "A contract might be short, also to prevent an oligarchy, but we want to invest with suppliers together in the supply chain. For sustainability and quality assurance. There are some minor changes in the supply chain partners, but 80-90 percent of the supply comes from the same parties over a long time". This company has contracts with a midstream party, which in turn can use this to their advantage by engaging in their own long-term partnerships with their suppliers.

## RISK REWARD

Another solution is to introduce a minimum premium price for sustainable palm oil production. Minimum prices, or alternative pricing models, can be introduced at company, standard or government level. An example is cost-plus-margin pricing, which is based on the costs of sustainable production, including a margin for the producer. The San Francisco Bay Coffee's sourcing programme, for example, ignores market prices and pays its suppliers on the basis of a cost-plus model.<sup>48</sup> Companies and governments can also lock prices for a season or over a longer timeframe. In general, these kinds of measures require good traceability between end producers and end users.

It's known, more or less, what the additional costs are for producing in accordance with RSPO, for example. Instead of fully relying on an open market, setting a minimum price can ensure that the cost for sustainable production is guaranteed for growers and smallholders. This can be done via cash payments or credits. One representative we spoke to from a major fast-moving consumer goods company said: "We pay the RSPO premium price on top of the material price. It is not something we are going to squeeze, we add it on top. The RSPO premium is independent from our other sourcing decisions".

Another option is to reward farmers for ecosystem services such as carbon sequestration. This is an excellent way to increase farmers' income and lower the scope 3 greenhouse gas emissions of the buyer. See paragraph 1.3 for examples of how Solidaridad is making efforts in this direction.

## SUCCESSFULLY SETTING MINIMUM PRICES IN GHANA

A good example of how setting a minimum price can work for farmers comes from Ghana, where the government introduced a minimum price for FFB in 2023. Aggregators and mills country-wide are now legally obliged to pay at least the monthly minimum price set by the government. This model followed a series of discussions between members of the Oil Palm Development Association of Ghana (OPDAG) and the Tree Crop Development Authority (TCDA), supported by Solidaridad.

Martin Ola, a farmer in the Western region of Ghana, said: “In the past, my minimum income was tied to the benevolence of the aggregators or mills and was often erratic. This made it difficult for me to plan. Under this current arrangement, I can predict my minimum income and effectively plan with it”.<sup>49</sup>

As of June 2024, the Solidaridad Ghana team noted that implementation was going well. Farmers now receive higher prices and don't have to accept arbitrary pricing set by aggregators and mills. The mills have also been supportive of the approach thanks to the level of transparency.

This example shows the importance of involving farmers and other stakeholders in the design of a pricing model. The first step was to hold meetings between stakeholders, value chain actors and policymakers to discuss the challenges around pricing and to collectively look for solutions.

The above example also reminds us that companies are not the only ones with a role to play in ensuring a fair price for farmers. Governments can also play a crucial role. And we're yet to discover the potential for national sustainable palm oil standards to set prices for sustainable palm oil. None of these standards have introduced price premiums. In any case, it is clear that standards also have a responsibility to enable farmers to receive a fair reward for their role in the value chain.

## VOICE

## REWARD

### LESSONS FROM COCOA

The debate on living income in the cocoa sector is a few years ahead of the oil palm sector.<sup>50</sup> Many of the largest FMCG's and retailers that buy palm oil, and products containing it, are also active in cocoa. So it only makes sense to look into the lessons from this sector. One way to ensure farmers receive higher farm gate prices is to implement Living Income Reference Prices (LIRP). The principle of an LIRP is that the farm gate price determined by the market is supplemented with additional payments direct to a farmer to allow the household to earn a living income. The LIRP is calculated by looking at variables such as cost of production, yield per hectare, farm size, other sources of income, household size, and the relevant living income benchmark.<sup>51</sup>

Developed simultaneously by Fairtrade and Tony's Chocolonely, these systems are now being adopted by a variety of companies, including Ben & Jerry's, Albert Heijn, Lidl Belgium, Aldi, Rewe and Colruyt. For example, Dutch retailer Albert Heijn reports on its LIRP practices for cocoa:<sup>52</sup>

TABLE 1 ALBERT HEIJN'S LIVING INCOME REFERENCE PRICES FOR PRIVATE LABEL CHOCOLATE

<b>GHANA - PRICE IN US DOLLARS PER TONNE OF COCOA</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Farmgate price	1.820	1.767	1.225
Certification premium	240	344	328
Extra premium Tony's Open Chain	40	0	567
Total Living Income Reference Price premium on top of farmgate price	280	344	895
<b>Farmer receives in total</b>	<b>2.100</b>	<b>2.100</b>	<b>2.120</b>
Management compensation cooperation	50	50	50

Palm oil companies can make similar calculations to contribute towards a living income.





Palm Oil, Nigeria. © Andrew Esiebo / Solidaridad

While individual companies may not be able to influence global market prices, they can decide to deviate from them. We recommend the following:

**Pricing**

**REWARD**

**VOICE**

**RISK  
REWARD**

**RISK**

**RISK**

**REWARD**

**RISK  
REWARD**

**REWARD**

**VOICE**

**RISK**

- Investigate the specifics of living incomes in your suppliers’ regions to build understanding about the potential existence of a gap towards achieving a living income.
- Consider the role of pricing. We know this is a difficult and sensitive issue for buyers. We understand that there are many other approaches that can also improve the livelihoods of farmers. But for fundamental change and a really sustainable sector, we cannot ignore pricing. Break the taboo.
- Pay a minimum price for (certified) fresh fruit bunches, crude palm oil, kernel oil and palm kernel expeller. Companies can also introduce minimum prices or ignore commodity exchange prices and develop alternative pricing models. An example of such a model is cost-plus-margin pricing, which is based on the costs of sustainable production, including a certain margin for the producer. **(see the San Francisco Bay Coffee example in Principle 2)**
- Lock prices for a season or over a longer timeframe.
- Ensure pricing can take into account fluctuating production costs. When production costs rise due to external factors, like inflation or increased transport or material costs, you should compensate for this in the price you pay. This should include the rise of fertilizer costs due to geopolitical developments like the COVID pandemic and the Ukraine war, for example.
- Ensure rewards for sustainable performance. Investigate how to reward a supplier’s positive performance. For example by carbon insetting and a shared responsibility to address GHG emissions, or paying for other ecosystem services.
- Buy RSPO ISH Credits at a good price. RSPO independent smallholder credits can be a good way for companies to contribute to their goals on smallholder inclusion. They are also valid for the calculation of the percentage of CSPO uptake. If the price you pay smallholders is right, it can be an effective way to contribute to their living income. As described in chapter 1 (see “**Independent smallholder credits**”), the price paid is often not even sufficient to cover the costs of certification, let alone contribute to a living income. Buyers should consider using credits to pay a living income differential (see the cocoa example), instead of paying a purely market-driven price for credits.
- **For governments:** ensure minimum prices for FFB produced are in line with national standards.

**Implement fair payment terms:**

- Ensure that when agents, dealers or intermediaries are involved in the trade that their payment terms are fair.
- Ensure all parties understand and agree on payment terms.
- Ensure timely payments and systems to monitor this.
- Consider advance payments covering costs for sustainable production, such as certification and traceability.
- Make price insurance policies and practices part of the deal by default.

### PRINCIPLE 3

#### **INTRODUCE EQUAL PARTNERSHIP AND COLLABORATION**

Equal partnerships and intense collaboration in the supply chain is essential to create smallholder inclusive and sustainable supply chains. This includes ensuring that farmers' voices are both represented and heard. It also includes ensuring fair business practices.

A 2024 study from Eggen et al. indicated that “the presence of smallholders within governance processes can affect the extent to which such producers can shape system standard setting and implementation in ways that yield tangible benefits for them”. However, the study shows that farmer voices are not well represented.<sup>53</sup> This leads to farmers feeling excluded. For example, in many large initiatives governing the palm sector, farmer voices are not represented. In RSPO for a long time there was only one seat allocated to smallholders in the board of governors. Also in initiatives such as Palm Oil Collaboration Group, Tropical Forest Alliance and other fora, the farmer voice is barely represented.<sup>54</sup>

For downstream operators working on improving their smallholder inclusivity a big challenge is the role of FFB traders or dealers. In particular in Solidaridad's **work in South East Asia**, we noted that FFB traders often have an influential role in the sector. They often play a substantial role in aggregating FFB for a mill. There can be many layers of actors in the smallholder supply chain; from the individual smallholder to collectors, sub-sub agents and sub-agents before they reach the main or lead agent and, finally, the palm oil mill. These dealers often provide additional services such as finances, labor and equipment. Especially in areas where there is more mill processing capacity than FFB supply, dealers have the upperhand in trade with competing mills.<sup>55</sup>

Downstream companies that want to improve their procurement practices need to find out which farmers are in their supply chain. Solving this is not easy. If you don't know who is in your supply chain, how do you know if they receive the right price and have fair payment conditions? We have found that some processors and traders seek ways to either bypass agents or ensure their cooperation.<sup>56</sup> One processor<sup>57</sup> located in Indonesia said: “we try to work with agents who treat their FFB suppliers fairly. We check that they indeed pay the right price for [the produce].”

## **OWNERSHIP**

At this moment we don't have a clear solution on how downstream companies can best tackle this challenge. We recommend mills and downstream parties to explore solutions on this together.

#### **Partnership and collaboration**

## **VOICE**

- Ensure that farmers, farmer representative and cooperative organizations are given a say in the development of pricing mechanisms. Oil palm farmers are price takers, but that does not mean that they can't influence pricing mechanisms.

## **VOICE**

- Insist that farmers, farmer representatives and cooperative organizations have a seat at the table in multistakeholder initiatives such as RSPO and TFA, and can easily contribute to discussions.
- Build an understanding of the role of FFB traders in your value chain.

### PRINCIPLE 4

#### **SUPPORT SUPPLIERS THROUGH PROGRAMMES AND ADEQUATE INVESTMENTS**

While fair procurement and pricing are fundamental to farmer resilience and prosperity, assisting them is also possible through support programmes. This includes support for strengthening organizational matters, but also technical matters. Recommendations include:

## **VOICE**

- Support the development of democratic cooperatives. This is a key mechanism to reduce risks for farmers, as it increases the ability of smallholders to influence key business decisions, including their weight in decision-making, arrangements for review and grievance, and mechanisms for dealing with asymmetries in information access.

## REWARD

- Traders and processors can offer inputs such as seedlings and fertilize for free or reduced costs) to the smallholders in their area in return for producing using sustainable methods. If a farmer's costs are lowered by providing free or cheaper inputs, this also helps in ensuring the farmer's livelihood and creating a more robust supply base.

## OWNERSHIP RISK

- Work towards creating **access to finance** for smallholder farmers. This will allow them to invest in their farms and create financial buffers for economic downturns.

## REWARD

- **Invest in projects and activities** to support Smallholder Inclusivity. Buyers could consider investing in achieving shared sustainability goals, like mapping, ecosystem services, regenerative agriculture, carbon storage, positive social impacts and yield increase. This is possible in various ways and via various multi-stakeholder approaches and initiatives.

## OWNERSHIP REWARD

Various projects exist to support smallholder inclusivity that companies can get involved with. For example:

- **The National Initiatives for Sustainable Climate Smart Oil Palm Farming** (NISCOPS) Solidaridad, IDH.<sup>58</sup>
- Sustainable jurisdictions / landscapes initiatives such as the Coalition for Sustainable Livelihoods (CSL) (Conservation International, IDH)<sup>59</sup>
- Conservation agreements (Conservation International)<sup>60</sup>
- Sustainable living Village Initiative (Apical)<sup>61</sup>

### SUPPORTING SMALLHOLDERS TO ALIGN WITH EUDR

In the **briefing paper by the Council of Palm Oil Producing Countries, MVO - The Netherlands Oils and Fats Industry and Solidaridad on implications of the EU Deforestation Regulation for oil palm smallholders**, we noted that the limitations around traceability will pose serious constraints for growers complying with this new regulation.<sup>62</sup> The EUDR requires operators importing oil palm (products and derivatives) into Europe to:

- provide geolocations – and polygon maps, if the plot is more than four hectares – marking where imported products were grown
- ensure traceability to the plot

While it is theoretically possible to organize this information, the costs of complying are likely to be higher than the additional market value generated. Supporting smallholders in meeting requirements is critical if we are to protect sustainable producers' access to European markets. FFB pass through many hands between leaving the farm and arriving at the palm oil mill. Transactions between supply chain actors are informal and based on trust, so there is minimal documentation. The smallholder's crop, collected by the sub-agents or in collection centres, are neither segregated nor documented. Therefore it is not possible to know the exact original source of each fresh fruit bunch.



### SERENDIPALM ORGANIC PALM OIL MILL

Even relatively small buyers can make a big impact. Dr. Bronner is a US-based soap and cosmetics producer. They have a special procurement model that shows how a smallholder inclusive procurement practice can work.

#### RISK

Instead of demanding suppliers comply with sustainability requirements, sourcing company Dr. Bronner took direct action by investing in the Serendipalm mill in Asuom Ghana. This is an interesting model for shared responsibility, spreading risk and reward more equally along the value chain.

Today Serendipalm supplies fair trade and organic palm oil to Dr. Bronner's, as well as European fair trade companies including GEPA and Rapunzel. The company says: "With growing demand for our palm oil, cocoa, and dynamic agroforestry practices we are expanding operations, to the benefit of farmers, workers, and the local community."<sup>63</sup>

"Serendipalm sources palm fruit from over 600 organic smallholder farmers. Organized into four local associations, they deal directly with Serendipalm for the purchase and collection of palm fruits. The farmers receive a ten percent organic premium on top of the going market price. Their fruits are weighed, not merely gauged, as is customary, and payment is made within two days."<sup>64</sup>

Dr. Bronner's speaks openly about premiums, for both fair trade and organic palm oil. They say: "All palm oil customers pay a fair trade premium as part of the purchase price. Our current premium revenue amounts to around 85,000 US dollars per year. The proper use of natural inputs allows farmers to maintain their organic certification, which ensures a 10 percent premium over the local market price for palm fruits."<sup>65</sup>

The model is also interesting from a gender perspective: "With more than 250 employees (mostly women who have not completed secondary education), the mill is the most important employer in Asuom." The company is also open about wages and additional worker benefits.<sup>66</sup>

#### OWNERSHIP

#### REWARD

#### VOICE

## CHAPTER 2 SUMMARY

In this chapter we shared the four principles for Procurement for Prosperity:

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

These recommendations indicate how companies can design procurement practices that create more smallholder inclusive value chains, taking into account the four aspects of farmer inclusivity: ownership, voice, risk and reward.

We hope these principles can support the sector to make the urgent shift from "sustainable sourcing" to "inclusive procurement" to ensure a more ethical and resilient sector. We hope this paper offers a solid contribution to developing the journey ahead.





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This publication was made under the RECLAIM Sustainability!  
Programme and the National Initiatives for Sustainable and  
Climate Smart Oil Palm Smallholders (NISCOPS) 2 programme,  
thanks to the support of:



Ministry of Foreign Affairs

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