



# REVITALISING THE PALM OIL INDUSTRY THROUGH INDEPENDENT SMALLHOLDERS

Malaysia Young Leaders Programme  
APRIL 2018

EXECUTIVE SUMMARY



## FOREWORD

Malaysia's over 235,000 independent oil palm smallholders face the risk of being left behind if they do not meet certification standards for traceability and sustainability. Despite palm oil's attractive returns, smallholders are often marginalised within the value chain. How Malaysia can ensure independent smallholders adopt sustainable agricultural practices and capture a fair share in the value chain creates a welcome challenge and an exciting opportunity.

In April 2018, a cohort representing multinational and local companies, government bodies and civil society organisations, participated in the Global Institute for Tomorrow's Malaysia Young Leaders Programme (YLP) in Perak and Kuala Lumpur. Internationally recognised for its intellectual rigour, experiential methodology and its output driven approach, the YLP is designed for young professionals from the public, private and civil sectors to develop their leadership skills whilst engaging in constructive dialogue and cross-sectoral collaboration to overcome key challenges in Malaysian society.

On the programme participants worked on a field project in Perak with Wild Asia, a social enterprise promoting traceability and sustainable agriculture practices. The programme was supported by the Ministry of Plantations, Industries and Commodities (MPIC). Tasked with creating an inclusive business model to strengthen independent smallholders position in the value chain, the cohort engaged in site visits, information gathering and interviews with government agencies, Orang Asli farmers, harvestors, dealers and millers.

The team then developed a business plan that not only puts independent smallholders at the forefront but benefits key players downstream while promoting sustainable agricultural practices and traceability. I am delighted to share this executive summary of the business plan with potential partners with an interest in financially viable, socially inclusive business models for the 21<sup>st</sup> century.

For the full report, please download a copy at:

<http://www.global-inst.com/pastprogrammes/2018/malaysia>

**Chandran Nair**

CEO, Global Institute For Tomorrow



## IN NEED OF REVITALISATION

Globally, 40% of oil palm is grown by smallholders. Palm oil, the most consumed oil in the world is one of the most productive and versatile crops. Despite its attractive returns, smallholders are often marginalised within the supply chain. This is no different for Malaysia's 235,000 independent oil palm smallholders who are generally defined as having less than 40ha of land and who make up almost 17% of the total land under cultivation.

In contrast to "schemed" or "associated" smallholders who are organised or directly managed by public or private sector parties, independent smallholders are self-organised, self-managed and self-financed, although they may receive some extension services from government agencies or NGOs.

Some of the challenges faced by independent smallholders in Malaysia include immediate pressure to meet global and national certification standards and a lack of sustainable agronomic knowledge, farm training and financial support. They are over reliant on dealers to sell their Fresh Fruit Bunches (FFBs) and have little or no clear relationship with mills or corporate actors in the value chain.



Furthermore they are vulnerable to price volatility and lack access to market data. All of these factors combine result in lower quality and yield and a seasonal struggle in independent smallholder communities to make ends meet.

To ensure the livelihoods of independent smallholders in Malaysia are preserved and improved, new inclusive business models are needed to address these key challenges and strengthen their position in the value chain.

## KEY CHALLENGES FACED BY INDEPENDENT SMALLHOLDERS



DISPARATE &  
UNORGANISED



NO ACCESS TO MARKET  
DATA OR GUARANTEED  
CROP PRICING  
MECHANISM



LABOUR SHORTAGE



GROWING PRESSURE TO  
MEET CERTIFICATION  
STANDARDS



INSUFFICIENT  
AGRONOMIC  
KNOWLEDGE AND FARM  
TRAINING



INADEQUATE ACCESS TO  
SUITABLE FINANCING



AFFORDABILITY TO GET  
HIGH QUALITY FARMING  
INPUTS



INEFFICIENT LOGISTIC  
NETWORKS

# BUSINESS MODEL



The proposal recommends a new inclusive business model by establishing the **Independent Smallholders Palm Revitalisation Organisation (isPRO)**, a company limited by guarantee (CLBG). The business model diagram below shows the key components of isPRO.

isPRO value proposition:

- Improving livelihoods for independent smallholders
- Promoting sustainable agriculture practices
- Matching supply with demand
- Increasing options for plantation management



The **isPRO** mobile application is a centralised system for smallholders to view the directory of plantation management service providers, access real time market data and seek support from **isPRO** when needed.

The platform will also be used to host a series of educational materials and videos to promote sustainable agricultural practices.

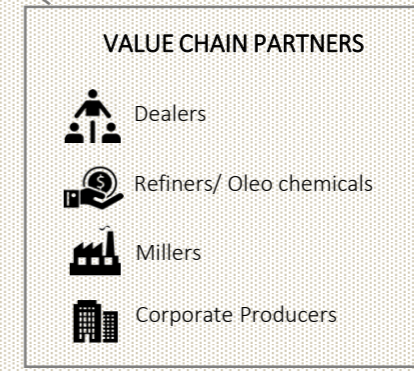
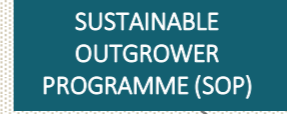


isPRO will increase plantation management options for independent smallholders by maintaining a pool of service providers. This generates healthy competition, results in transparent pricing and matches supply with demand.

isPRO will charge service providers a 5% commission for all services rendered either through the app or offline via their directory.



isPRO will organise independent smallholders into clusters according to land proximity to the mill and size (1 cluster: total area of 1,000 hectares) for more effective delivery of its services.



isPRO is established with potential seed funding from corporations, government and development finance institutions (DFIs).

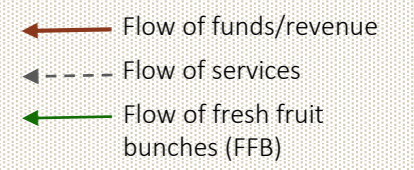


The Sustainable Outgrower Programme (SOP) matches clusters who are already engaged in, or willing to adopt sustainable agricultural practices with value chain partners who are looking to supplement their FFB supply from external sources.

- isPRO plays the role of a broker and supports the drafting of contracts which ensure the interests of both parties are met and crucially, that clusters certification is offset or subsidised by the buyers in exchange for a commitment to supply FFB.
- The buyers would also provide farming inputs (seedlings, fertilisers) to assure high quality FFBS can be processed.
- isPRO will charge the buyer a one-time fee of RM50/ hectare included in the SOP.



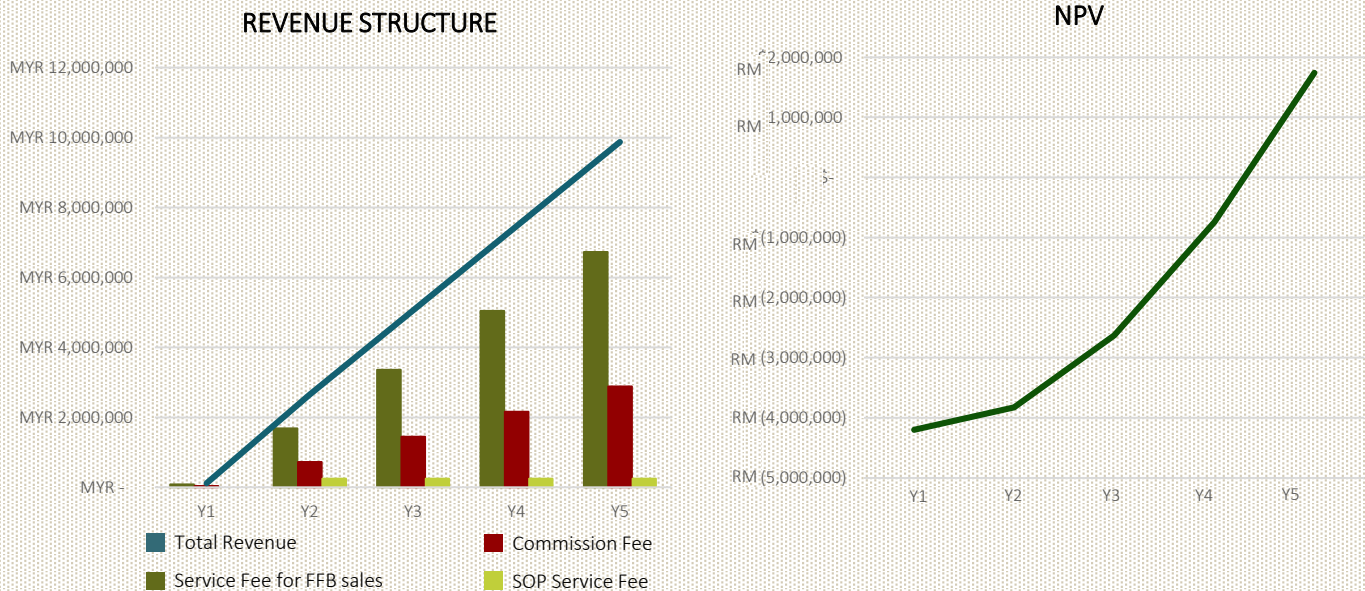
isPRO will facilitate FFB trading activities between clusters and buyers to ensure a fair pricing structure while ensuring high quality of FFB. A service fee of 2% will be charged for all facilitated sales, 1% paid by clusters and 1% paid by the buyer.



# FINANCIAL PROJECTIONS

The establishment of isPRO presents an excellent opportunity for investors and strategic partners who wish to create significant impact on Malaysia's palm oil industry and improve the livelihoods of independent smallholders.

From an initial investment of RM3 million, isPRO is expected to achieve an IRR of 25.5% and generate a net income of over RM4 million by Year 5. The business will have a Net Present Value of RM1.5 million over five years, with an initial payback period of 3.6 years.



\*For more detailed analysis, scenarios and key assumptions, please refer to the comprehensive report.

# SOCIAL IMPACT & COMMUNITY BENEFITS

isPRO functions as a commercially *and* socially driven entity that addresses the key challenges independent smallholders face and strengthens their position in the value chain. All of isPRO's key activities will contribute to advancing efforts in improving smallholders' quality of life and promoting a more sustainable agricultural system.

The **isPRO** Social Development Fund is a vehicle to redistribute financial surplus towards strengthening the palm oil value chain by empowering smallholders. Key areas of activity will be:

**CAPACITY BUILDING & EXTENSION SERVICES**

Fund educational activities in collaboration with Wild Asia to promote sustainable agricultural practices.

**RESEARCH & DEVELOPMENT**

An "Independent Smallholder Oil Palm Centre of Excellence" in collaboration with public, private and academic partners focused on developing improved inputs and innovative farming equipment.

**COMMUNITY DEVELOPMENT**

Community infrastructure projects within plantations such as improved road systems and drainage, social services such as education, elderly care and housing or crop insurance.



## KEY DRIVERS FOR SUCCESS

**isPRO** offers innovative solutions to address the key challenges independent smallholders face. The business model strengthens smallholder's position in the value chain, benefits other key players downstream by leveraging economies of scale, offering more choice and matching supply with demand, all while promoting sustainable agricultural practices and greater traceability.

### Key drivers for success include:

- Convening a consortium of founding members and drafting a constitution imbedded with checks and balances to ensure the interests of all stakeholders, especially independent smallholders, are protected;
- Securing the initial funding to establish **isPRO** and begin implementation of pilot site in Perak;
- Organising the independent smallholders into clusters for efficient delivery of services and to leverage economies of scale;
- Securing partnerships with corporations for a successful Sustainable Outgrower Programme;
- The identification of risks and development of mitigation measures to address these quickly and efficiently.

Besides being a financially viable business, **isPRO's** activities can revitalise the palm oil industry in Malaysia and serve as an example for other palm oil producing countries. In doing so, Malaysia can be promoted to the world for producing socially responsible and sustainable palm oil and help drive inclusive growth in the industry.



## PARTICIPATING ORGANISATIONS



## PROJECT PARTNER: WILD ASIA

Wild Asia is a Malaysia-based social enterprise established in 2003 which aims to foster future sustainable development by helping businesses, organisations and consumers to lessen their environmental footprint. Wild Asia's work takes place within key sectors that are closely connected to the negative externalities of the 21st century globalised world and one of the organisation's key activities is improving palm oil traceability.

### Wild Asia Palm Oil Initiative

Wild Asia's fundamental goal in their palm oil initiative is to increase the growth of traceable and certified palm oil. This is achieved in three ways: consultancy, training and implementation of schemes to promote adoption of sustainability standards.

### Wild Asia Group Scheme (WAGS)

WAGS is a group management system to support groups of independent smallholders to achieve sustainable production of palm oil. With sites in four states and each funded through a partnership model, the scheme promotes sustainable practices among independent smallholders by moving towards RSPO certification.





# Tomorrow Matters.

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