

## Profiles of Company-Smallholder working arrangements for two Brazilian palm oil companies

### Background

Due to a combination of climate and soil the Amazon region of Brazil is the most suitable and the most important area in the country for palm oil production. Large scale development has taken place, especially in already deforested areas or those with high degree of degradation. Brazil produces about 370,000 tons of palm oil annually, which does not meet domestic demand; currently approximately 500,000 tons per year, driven mainly by the national biofuels market (ref. [www.abrapalma.org](http://www.abrapalma.org)).

This study focuses on two companies, Biopalma da Amazônia S.A and ADM do Brasil Ltda, both operating in the state of Para, the first on 60,800 ha and the second 7,500 ha. Biopalma da Amazônia S.A has 480 smallholders supplying their two mills, which accounts for 7.89% of the production. ADM do Brasil Ltda works on a slightly smaller scale and has 267 smallholder suppliers, equal to 25% of their production.





## Partner Smallholder Producer Model

### Partner Farmer Selection

Both companies have teams responsible for selecting smallholder producers in accordance with pre-determined criteria. These teams usually get in contact with community leaders or organize meetings with a community to share relevant information about the possibility of partnership, including data on the palm oil production, investment analysis and contractual aspects.

Interested smallholders will be screened against a set of minimum criteria. These criteria include: farm size, slope and soil type of their land; current use of the land (conversion of natural vegetation to plantations is not permitted); sufficiency of skilled labour; land tenure documentation; diversification of family income (must be sources of income other than sale of FFB); economic status (may not be in default on loan repayments).

### Agreement

Both companies set a fresh fruit bunch (FFB) purchase and sale contract with smallholders for a period of 25 years. In one case, the contract establishes the obligation of producers to sell 100% of production to the company, while in another this obligation does not exist. There is no intermediary person/companies in the negotiations between companies and producers.

Partner smallholder producers retain full ownership and user rights over their land and their plantations.

### Technical assistance

Both companies provide technical assistance to producers, varying only in its periodicity, which can be fortnightly or monthly. The following topics are covered on the technical assistance:

- Good agricultural practices
- Health and safety (including pesticides)
- Environmental issues, including forest conservation
- Supply of fertilizer

The companies also take responsibility for scheduling and transport logistics for FFB collection.

One of the companies provides oil palm seeds to producers, of a variety selected for quality and quantity of yield and matched for local soil and climate. It remains the smallholder's responsibility to raise seedlings from these seeds.

Partner palm oil smallholder producers have total autonomy in managing their land and are responsible for activities such as soil preparation; planting; spraying; fertilization; pruning and harvesting.



## Finance

Partner smallholder producers can access financial resources needed to purchase inputs and to cover other expenses by contracting a state-subsidised bank loan via Pronaf-Eco Dende credit lines, made available by Brazilian federal banks for up to 14 years, including a 6-year grace period at an interest rate of only 2% per year.

One company seeks to facilitate smallholder access to agri-inputs by undertaking large scale purchases, for subsequent transfer to farmers at cost with subsequent reimbursement.

## Conclusions

### Pros

From the company perspective working with smallholder producers provides the following strengths:

- De-concentration of capital
- Social inclusion in the territory where the companies operate
- Company presence energizing the local economy and establishing the company's position within it – beyond simple resource extraction
- Companies have a range of producers producing quality raw materials in a sustainable way, enhancing the product of the industry

From the perspective of the smallholder producers these partnerships offer the following advantages:

- Access to an agribusiness offering a guaranteed market without middlemen, increasing capacity for economic, social and environmental development of their region
- Possibilities for peer to peer learning between smallholders leading to opportunities to boost the efficiency of their production
- The possibility of accessing technical expertise and quality products (inputs and seedlings) at cost price

### Cons

- One company cited difficulty for many smallholders in meeting their selection criteria on economic status, with no restriction on access to credit. Smallholder producers have a high rate of default on credit repayments to the bank in the region.
- Poor roads and bridges also impact on selection of partner smallholders, as it makes timely transfer of FFB unfeasible from some parts of the region.
- Companies are not always able to find and commission local service providers to cover technical assistance to partner smallholder producers and to transport their FFB. This in turn limits the number of producers they can accept on their palm oil production program.
- The wide geographical distribution of the smallholders pushes up logistical costs.



- Poor level of smallholder organization (there are no associations or cooperatives) and low levels of smallholder education are barriers to dissemination and interpretation of information from the company to smallholders.

#### Lessons learned

- Building partnerships with smallholder producers requires that a range of technical, social and economic issues be addressed. Realising the business opportunities for both the company and the smallholder families involved requires the dedication of many individuals.
- The development of partner smallholder schemes has presented valuable learning opportunities for company employees. They have learned how to: develop a project; coordinate technical and administrative teams; raise funds for the development of the project; and conduct business negotiations with government and private entities. This has enabled a better understanding of the entire palm oil production chain for company staff.