



“Smallholder farmers and living income”

Stakeholders expressed they expect the AD Partnership to facilitate further discussion and actions (‘complementary measures’) to support smallholder inclusion and ensure sustainable livelihoods in the context of the European Union Deforestation Regulation (EUDR) and the UK Environment Act. This document provides some background information to facilitate a more in-depth discussion on the topic of smallholder farmers and living income¹ for a variety of agricultural commodities. The intention of this policy brief is to facilitate an internal ADP discussion and support identification of next steps. This policy brief does not reflect the view or position of any ADP country, nor does it commit a country to these next steps or certain actions.

This document provides a brief overview of a very complicated, contextual subject. Not all relevant topics and issues can be presented and discussed at length. There is plenty of literature available for further reading and analysis. However, this policy brief tries to highlight the main topics and key messages.

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¹ Living income is about self-employment and living wage is about paid employment.

Key Messages for quick reading

- **Smallholder farmers** are not a homogenous group and defined differently in different countries with a large variety in assets and capability to respond to development opportunities (Jelsma et al, 2017). Simplified assumptions play down the role and potential of smallholder farmers and hinder good discussion. Given their context and experiences, smallholders are risk-averse and the priority of a smallholder is a more reliable and predictable income. Living income for smallholders directly affects the living wage of hired labour working (often landless people) on these smallholder farms, and vice versa (Cocoa Living Income Compendium 2022). Increases in wages without corresponding increases in income of self-employed farmers reduces their livelihood and blocks their adoption of better agricultural practices or more labour-intensive production.
- The EUDR is another requirement in a longer process of increasing agrifood safety and quality requirements, not a sudden block (further reading: Lee et al, 2010).
- The majority of farmers with less than 2ha do not produce commodities for the global market, or are currently not directly linked to the European market. However, for some commodities and countries smallholders are responsible for the majority of output (see box 1). Important commodity production chains - within the scope of the EUDR - with many smallholders are cattle, cocoa, coffee, palm oil, and natural rubber.
- **Poverty** is a major root cause of deforestation, mainly related to farmers practising shifting cultivation, and an obstacle for smallholder farmers (often women) to invest in higher productivity and sustainability. The right to a decent standard of living and to remuneration allowing for a decent living of each person and family members are binding human rights as per Article 11 and 7 of the International Covenant on Economic, Social and Cultural Rights.
- Breaking the poverty trap is important for our efforts for smallholder inclusion into sustainable, deforestation-free supply chains. In that sense, enabling living incomes for smallholders can be considered a precondition to realising our zero deforestation, human rights, biodiversity, climate change, and SDG ambitions. Most countries have already set minimum wages in agriculture, but not for a living income for farmers. Market prices for farmers are low compared to their cost of production because of competition between downstream traders, processors, brands, and retailers in downstream markets typically characterised by high downstream concentration and consequent leverage towards farmers putting downward pressure on price. Price reductions are often absorbed by the farmers. At an individual farmer level, small farm size is strongly negatively correlated with income as are low productivity and low prices. Small farm sizes translate to higher per unit cost, making smallholders structurally less competitive.
- Smallholder farmers, Indigenous Peoples and forest farmer communities may be living in agricultural expansion areas, which pushes them either legal or illegal (land grabbing and speculation), further into the forest.
- Focusing only on farmers with commercial potential without regard for their **communities and country context** could also lead to adverse incorporation and exclusion for those without land or with very small parcels, greenwashing of produce from illegally cleared land or with human rights violations, or tensions with or within

the community (as shown by many examples when companies try to establish large plantations with outgrower schemes without broad community consent).

- Poverty, high presence of smallholders, low quantity and quality, lack of sufficient transport infrastructure, coupled with the higher per unit cost of monitoring their activities for deforestation and human rights enhances the liability risks of companies downstream for infringements of EUDR and creates an incentive for them to move away from regions or more remote areas, assessed as too risky.
- **Smallholder Inclusion** is not a guarantee for a sustainable livelihood and a living income (lessons can be learned from the cocoa sector and shared with other commodities). It has pros and cons depending on the context of the farmer and relates to ownership, voice, risk, and reward (Schouten and Vellema, 2019). See also annex

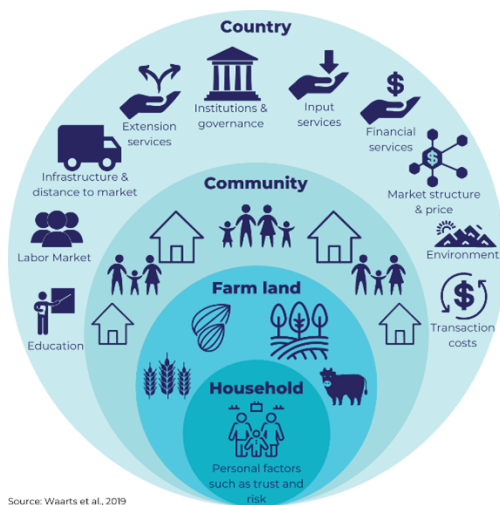
1. To protect the remaining (high conservation value) forests and facilitate sustainable value chains, regulation and enforcement alone will not ensure sustainability, living income, and no deforestation. To drive systemic change in agriculture three pillars need to be addressed: (a) legislation on due diligence which encompasses a duty to assess the impact of purchasing practices on prices and livelihood of smallholders; (b) policies; and (c) pre-competitive collaboration (i.e. partnerships).

- The best support strategy is a mix of farmer-oriented and community-oriented support measures with the involvement of producer country government and the private sector.
- Governments of producer countries have a key role to play for supporting enabling conditions such as securing and

documenting land rights, up-to-date land-use maps; law enforcement; implement strong traceability systems; access to education, social protection, and health services; and supporting wider rural economic development and off-farm employment opportunities.

- Companies are key players as the current market system does not provide fair market prices for farmers or reward their investments for sustainability. To enhance the living income of smallholder producers dedicated attention is needed. Topics include fair pricing, collective bargaining power through farmer cooperatives, access to finance productivity enhancement, climate insurance, access to quality inputs, and adoption of best practices and skills (see also box 2). This will not only improve smallholder livelihoods but also enable them to become more sustainable.

See for suggested next steps the last chapter.



Source: Waarts et al., 2019

1 Background

With the formal acceptance of the EU Deforestation Regulation (EUDR) and the coming EU Corporate Sustainability Due Diligence Directive (CSDDD) there is concern smallholder farmers may be excluded from commodity supply chains to the European market. Concerns have also been expressed regarding the sustainable livelihoods of these farmers, i.e. their living income, fair market prices, and purchasing practices of downstream traders, processors and retailers. The topic of living income has been discussed in the cocoa sector but less so for other commodity supply chains. The ADP not only focuses on deforestation but also on the social / human rights aspects and Indigenous Peoples issues related to commodity supply chains.

Within the context of the EUDR, the issue relates to preventing smallholder exclusion and other unintended consequences², and supportive actions are expected as part of cooperation with third countries (Art.30). By June 2028 a review is expected from the Commission to assess the impact on farmers and the possible need for additional support (Art.34). Complementary measures could already be taken by EU member states (incl. ADP). Companies can also support the inclusion and compliance of smallholder farmers through capacity building and fair pricing as part of their risk mitigation measures. From ADP multi-stakeholder meetings, it is apparent that smallholders may be unable to meet or demonstrate legal compliance with new requirements, mainly due to lack of formal land titles, knowledge, and finance for investment. Discussion and concerns regarding smallholder farmers are not new. Smallholder farmer poverty reduction has been a topic for development cooperation for decades. Nowadays, there is a stronger recognition of the role of companies, globalisation, and the political-economic system in both producer countries as well as consumer countries. The business and social case for farmers, companies and country governments for no deforestation and no poverty needs to be clear, especially with the current climate crises and economic uncertainty, to enhance security for all.

Box 1: Joint letter CSOs on smallholder-inclusive implementation of the EUDR.

Received 28th of May 2023. Actions mentioned for ADP together with the Commission:

1. Immediately assess the EUDR impacts on smallholders and their need for compliance.
2. Urgently and significantly scale up support measures empowering smallholders and forest communities, especially women, enabling them adequate markets access based on fairness and equity.
3. Start engaging with all relevant producer countries based on a strategic framework.
4. Enable producers, in particular smallholders and forest communities to earn a living income.

2 Smallholder farmers

Who are the smallholders?

Smallholder farmers are not a homogenous group and defined differently in different countries. Most literature and countries use a maximum farm size threshold. Other criteria for example relate to reliance of household labour for production activities, production for subsistence or for sale; gross sales; or share of household income derived from the farm activities. 'Small in size' is however also a relative concept. 'Smallholder oil palm farmers' in Indonesia is defined as less than 25 ha (many have much less); in Colombia this is 50ha. For other commodities this may be 5 ha, 2 ha or less (see also table 1). A smallholder farm defined based upon the number of hectares of the farm, is not equal to the farms' ability to provide a living income or not. Globally however, many farms with less than 2 ha are poor households.

² In various discussions and open letters both NGOs, producer governments and industry use 'the smallholder argument' to voice concerns regarding the effect of the EUDR.

Many smallholder farms support large families, used as family labour. Across jurisdictions - even within the same landscape, - there can be major differences in access to legal documents, quality seedling and agricultural input, land access and documentation, capital, labour opportunities, electricity, drinking water, telephone, schooling, markets etc which are considered important for wellbeing and welfare and are important assets to respond to development opportunities.

Globally, there are an estimated 570 - 608 million farms in the world (Lowder et al, 2016; 2021): 475 million farms have a farm area of less than 2 ha, and 500 million are family farms. Farms with less than 2ha only cover 12% of the world agricultural land while family farms cover 75%. 'Smallholder farms' are therefore not synonymous with 'family farms'. Their importance for food production and food security should not be underestimated. Five out six farms consist of less than 2ha and they produce 35% of the worlds' food (Lowder et al, 2021). Grouped together with larger family farms this reaches 80%. Many smallholder farmers have no documented, formal individual or collective land rights.

Smallholders in global commodity supply chains

The production of for example cattle, cocoa, coffee, palm oil and natural rubber include millions of smallholder farmers. Agricultural supply chains have a worldwide reach integrating smallholders into their global sourcing networks or the domestic market. However, not all smallholder farmers in a country are producing commodities or are linked to the global market. Many farms with less than 2ha produce for domestic consumption.

Table 1: Share of smallholders (SH) in commodity production and export to the EU (Zhunusova et al. 2022; IDH 2021; other sources) for several countries. Figures are rough estimates:

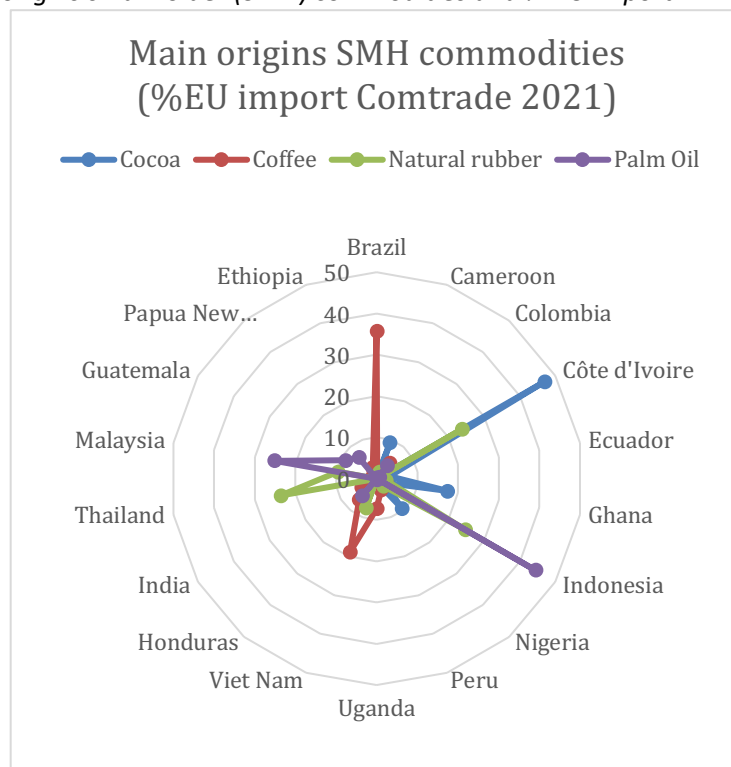
Commodity	Country	EU import (tonnes)	% EU import	Total # of farms	# Smallholders in commodity supply chains
Coffee	Brazil	933,000	32%	4.4m	300,000 farms < 5ha; 38% production
	Vietnam	642,000	22%	10m SH?	600,000 farms < 1ha; 95% production
	Honduras	216,000	7%	> 2.3m	70% farms < 2 ha; 70% production
	Uganda	166,000	6%	7m	1.7 million farms < 3ha; 85% production
	Colombia	154,000	5%	2.7m	560,000 farms <5ha; 69% production
	Ethiopia	78,000	3%	15.6m	2 million farms <2ha; 90% production
	Indonesia	78,000	3%	38.8m	1.5 million farms < 1ha; 95% production
Cocoa	Ivory Coast	1,135,258	45%	1m	700,000 farms<3.6 ha; Almost all prod.
	Ghana	369,164	15%	7.3m	865,000 farms <5ha; Almost all prod.
	Cameroon	206,044	8%	2.75m	600,000 farms < 5ha; Almost all prod.
	Nigeria	151,073	6%	34.5m	350,000 farms < 4ha; Almost all prod.
	Ecuador	68,960	3%	?	90,000 farms <5ha; Almost all prod.
Palm Oil	Indonesia	3,381,079	48%	38.8m	1.4 mill SH <20ha*; 42% planted land
	Malaysia	1,793,909	25%	600,000	300,000 SH <40ha; 40% production
	Papua NG	451,120	6%	5m	23,000 farms <6ha; 40% planted area
	Guatemala	430.727	6%	?	6 large companies; 100% production
	Colombia	429,653	6%	2.7m	4,800 farms <50ha; 13% production*
	Honduras	392,781	6%	> 2.3m	17,000 farms <10ha; 18% production*
Natural rubber ³	Thailand	294,598	24%	5.1m	1.7m farms <1.6 ha; 95% production
	Indonesia	308,977	25%	38.8m	2.5m farms 1.5-2 ha; 85% production
	Vietnam	95,070	8%	10m SH?	263,876 farms 1-2 ha; 51% production
	Ivory Coast	298,771	24%	?	800,000 people involved; 47% production

³ Rubber in Indonesia ([link](#)), Thailand ([link1](#), [link2](#)), Vietnam ([link](#)) and Côte d'Ivoire ([link](#)).

For a common understanding and further dialogue, it should be clear which smallholders we mean: (1) those currently directly linked to the European market; (2) all smallholders involved in the production of that commodity; or (3) all smallholder farmers in a country.

Standards on disease control, food quality & safety, and sustainability are driven by consumers and in the case of global supply chains by consumer-facing companies and governments and often transferred into national regulation. The EUDR is another requirement in this longer process of increasing agrifood safety and quality requirements, not a sudden block. Middlemen, exporters, and traders act as the intermediate between consumer-facing companies and the farmers. Over the last decades, there has been a commercial push for larger monoculture plantations and market concentration. Global commodity supply chains show increasingly an hourglass shape of concentration, in few, very influential companies. This concentration of market power and increasing demands on production quality is challenging for smallholders (and small companies) who are not always capable to compete and comply, and is a push to more vertically integrated supply chains (Vemeulen, 2010).

Figure 1; Main origins smallholder (SMH) commodities and % EU import



Figures and origins EU import of commodities with large share of smallholder production (Comtrade).

3 Poverty reduction and living income

There is global recognition that eradicating poverty is a prerequisite for sustainable development and poverty is one of the root causes of deforestation. Although there is a global definition of 'poverty'⁴, being poor in a country also depends on the average household income, the number of people in a household and the accessibility & affordability of basic needs. Poverty can be alleviated if (a) the economy and mean income grows on a sustained basis; and (b) income inequality stays neutral or decreases (IMF, 2001). Poverty differences cut across culture, traditions, gender, ethnicity, age, location (rural versus urban), and income

⁴ The United Nations define poverty as having an income of less than 2 US\$ per day.

source. In households, children and women often suffer more than men. In the community, minority ethnic or religious groups suffer more than majority groups, and the rural poor more than the urban poor; among the rural poor, landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies (IMF, 2001). Therefore, to understand and address poverty, it is essential to understand the economic and social context, including institutions of the state, markets, communities, and households.

In many producer countries, the agricultural sector is the main employer and is responsible for a high percentage of GDP and export earnings. Poverty in rural areas and poor farmer households has proven to be persistent. The differences in smallholder farms' incomes between countries are significant and often reflect different stages of development across countries. The average farm size is significantly less than 2ha in many countries, for example: Bangladesh (0.24ha), Viet Nam (0.32ha, Kenya (0.47ha) and Ethiopia (0.9ha). Poverty is also persistent because of the biophysical limitations of the land, and that plots of land of less than 2ha will in many cases not lift people out of poverty / provide a living income. Poverty, insecurity, and climate change are major constraints for wellbeing and investment. Many smallholder farms depend on family manual labour and nutrition has a significant influence on the relation between health and agricultural productivity.

Living income is defined as the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household (i.e. the living income benchmark) (IDH⁵). This standard of living includes access to food, water, housing, education and other essential needs. This income can be derived from multiple sources, e.g. seasonal labour supplementing the income from a plot of land. The difference between the living income benchmark and the actual income is referred to as the living income gap. The discussion around living income started in the cocoa sector. Stakeholders realised that to make the sector sustainable from a social, economic and environment perspective would not be attainable unless farmers earn at least a living income (ICCO, 2019). Stakeholders in the Living Income Community of Practice defined a roadmap with a range of steps to be taken by a company (IDH website).

In 2023, the Joint declaration on Living Wage and Living Income⁶ was launched by the governments of Belgium, Germany, Luxembourg, and The Netherlands. The countries aim to foster a dialogue between consumer and producer countries to realise sustainable supply chains and promote the importance of an adequate minimum wage through responsible business conduct. Most countries have already set minimum wages in agriculture, but these will not necessarily lead to a monthly living income in agriculture.

4 Inclusion of smallholder farmers in (global) supply chains

The general assumption is that 'by providing smallholder farmers with the right inputs and skills, they are able to increase their productivity and income from their farming activities, which will lead to the wider outcomes of agribusiness growth, enhanced food security, and rural development' (NEA, 2019). Better integration into global supply chains is associated with increased farmer capability to achieve a desired livelihood and promoted as a strategy for poverty alleviation, economic growth, employment, gender equality, and well-being (Ros-Tonen, 2019). In other words: including smallholders into a global supply chain will get them out of poverty. This may be true for palm oil growers in Colombia (Castiblanco, 2015) and

⁵ <https://www.idhsustainabletrade.com/roadmap-on-living-income/>

⁶ https://www.idhsustainabletrade.com/uploaded/2021/02/Joint_Declaration_NLD_DEU_270121.pdf

Indonesia (Rist, 2010) but is not the reality for cocoa farmers in Côte d'Ivoire. The basic assumption overlooks the complexity of a country with a variety of root causes (infrastructure, education, farm size, culture, employment opportunities) as well as the commercial competitiveness and profit-orientation of companies. In Côte d'Ivoire, 85% of cocoa farmers do not earn a living income and 56% are considered poor.⁷ The millions of cocoa farmers globally only earn 4-6% of the final value of a bar of chocolate (Fairtrade website).

Inclusion in a commercial commodity supply chain may also push for monoculture production and dependency on a single cash crop and limited bargaining power, whereas production diversity has proven to be a sound livelihood strategy for many farmers and local communities, especially in remote areas and those producing for the domestic market. Access to markets is also important: research (Kissoly, 2020) shows that farm production diversity in remote areas has a positive influence on food security and diversity. However, in peri-urban and rural areas with better market access, production diversity is generally lower but dietary diversity higher. Lastly, not all smallholder farms and farmers are suitable or capable to become commercial farms. Smallholder inclusion and livelihood improvement are not synonymous and will have different dimensions and outcomes from a business, value chain or development perspective depending on the country context, the production capacity of the farm, and its remoteness. For successful inclusion in supply chains there are important farmer-related conditions and causes to address. Conditions include (1) farms are not remote with sufficient⁸ transport infrastructure; (b) farms have good agro-ecological potential (fertile soil, water, climate risk); and (c) formal land tenure rights. Soft constraints include (i) lack of inputs (e.g. fertiliser, quality seedlings); (i) lack of finance, credit and (climate) insurance; (i) insufficient education, knowledge and adoption of best practices and skills (NEA, 2019; Shenggen, 2013). Whether a low level of mechanisation is a constraint depends on the size of the farm, but it is a financial obstacle for upscaling. These aspects are reinforced in highly concentrated market structures that require consistency in volume and quality of supply.

To make it more complex: focusing only on farmers with commercial potential without regard for their communities and context could also lead to adverse incorporation and exclusion for those without land or with very small parcels, or tensions with or within the community (as shown by many examples when companies try to establish large plantations with outgrower schemes). Frustration in a community can rise quickly when participation does not lead to material gains, promises on education and healthcare are not met, or when companies dictate the terms. Even when smallholders are inclusive in 'ownership, voice, risk and reward' many (subsistence) farmers prefer employment backed up with a small plot of land for household food production (Shenggen, 2013). In producer countries in Africa long-term employment opportunities in agriculture are extremely rare and therefore subsistence farmers stay on their plot of land. This means that discussions on smallholder inclusion, and the issues related to them, are closely related to social safety, links to nutrition and health and agriculture, economic and rural development in the producer country. Another very important element not to be overlooked is that food needs to stay affordable for other households in nearby cities (the urban poor). Therefore, the best support strategy seems to be a mix of farmer-oriented (see annex 1) and community-oriented support measures. Particularly, farmer cooperatives have a significant dampening effect on the poverty vulnerability of smallholder farmers (Jianzhong Liu, 2023). They also enable farmers to organise an economy scale regarding compliance with regulations and market requirements, input purchases and price negotiations (Tropenbos, 2021).

⁷ <https://scopeinsight.com/how-to-create-systemic-change-across-the-cocoa-sector-in-cote-divoire/>

⁸ Sufficient in the sense that the product can reach the market or storage/processing facility in time and maintain its quality.

Given their context and experiences, smallholders are risk-averse and the priority of a smallholder is a more reliable and predictable income. Their ability to invest from savings is very limited⁹ and credit – if available – is expensive. Basically, a smallholder has three options to increase the income from the farm: (1) an increase in yields and prices of the crops already grown (and reduce of losses due to climate risks); (2) production of higher value, climate resilient crops with higher margins; or (3) an increase in the size of the area under production¹⁰. Rightfully so, the smallholders choose for diversification to reduce income shocks with a part of their land dedicated to cash crops. Business models¹¹ that aim to integrate smallholders into commercial value chains need to respond to this broad spectrum of smallholder risks and trade-offs (IIED, 2010; NEA, 2019), considering smallholders need to improve their productivity, income, nutrition & health status. Important pre-conditions for companies usually include secure and formally documented land rights, road infrastructure, irrigation; and sometimes facilitated access to inputs, markets, services, education, and capacity building. Secondly, more attention is needed for more employment opportunities - and vocational training - along the value chain and in urban areas (also as an exit strategy for non-viable farmers). With the increasing climate risk, farmers also urgently need a certain level of insurance to manage risks and support investment to enhance resilience. Lastly, robust social protection systems are needed to provide smallholders with income-equivalent guarantees against sickness, maternity, disability, and other uncertainties. Currently, it is up to the family, the children, or the community to act as social safety nets.

5 The risk of deforestation and non-compliance of smallholders

The EUDR has two major requirements: (1) no deforestation after 31 December 2020; and (2) full legal compliance in the country of production. The EU has defined smallholders as “farmers who conduct independently an agricultural activity on a holding with an agricultural area of less than 2 hectares for which they hold ownership, tenure rights or any equivalent title granting them control over land, and who are not employed by a company, except for a cooperative of which they are members with other small holders, provided that such a cooperative is not controlled by a third party.” So, for this policy brief the question is: (1) what is the risk of deforestation and non-compliance of smallholders with less than 2ha; (2) which part is related to commodity production, and (3) and exported to the European market? The main smallholder-relevant commodities are cattle, cocoa, coffee, natural rubber, and palm oil.

The majority of global deforestation and degradation is linked to agriculture (incl. cattle ranching), logging and fuel wood collection. Smallholder farmers - especially in remote, high forested regions - do convert forests. This can be related to a growing rural population, ‘slash-and-burn’ practices for shifting cultivation (still high in the Congo basin), or expansion to enhance crop diversity and/or enlarge the farm. A large percentage is driven by land speculation whereby the land is deforestation and used for agriculture¹², whereby smallholder farmers are paid by others to occupy the land, which is increasingly linked to organised

⁹ Savings are mainly invested in social capital (weddings, funerals) being part of the community and in response to accidents, sickness and subsistence, at the expense of schooling and farm.

¹⁰ The trend in sub-Saharan Africa is actually that plots of land are becoming smaller due to growth of the rural population and lack of urban employment.

¹¹ Vermeulen, (2010): contract farming; management contracts; tenant farming and sharecropping; joint ventures between a company and a farmer organisation; farmer-owned business; and business opportunities beyond direct agricultural production.

¹² <https://news.mongabay.com/2019/03/brazils-key-deforestation-drivers-pasture-cropland-land-speculation/>

crime¹³. Cross-border and internal migration - with many minors - also work with no or low pay in situations of modern slave labour in illegally deforested areas and, after some years of servitude, allowed to deforest their own plot of land. This mainly occurs on the agricultural frontier in high-forest cover regions with no government oversight. Because these farms are often remote, they will not produce commodities for the European market but rather sell locally / to the domestic market. However, there is no guarantee that some volume may end up in global supply chains.

From a legal and consumer-oriented perspective of downstream companies subject to the EUDR and due diligence requirements, sourcing from many different smallholders presents a liability and increased costs for risk mitigation. Intensive monoculture production with high levels of control on land deforested before the EUDR cut-off date will be favoured compared to less intensive smallholder forms of agriculture involving agroforestry. For commodities dominated by smallholders (e.g. cocoa), companies will not have a choice. For now.

The European market is by far the main market for certified commodities and voluntary sustainable certification standards demand legal compliance and no deforestation. We therefore looked at the experiences, status and progress of smallholder inclusion of such standards to gain insight whether deforestation and legality are risks to 'smallholders commodities' exported to the EU. Although the relevance of certification might have been declining and their effectiveness in delivering sustainable production is being disputed (Cocoa Barometer 2022).

Beef and Leather

Cattle ranching is the main driver of deforestation and a major cause of greenhouse gas emissions. Cattle driven deforestation mainly occurs in Latin America, of which Argentina, Brazil, Paraguay and Uruguay are the main exporters to Europe. Most beef is however not exported. The EU imports only 5% in volume but represents almost 17% in total value (Mekong ecology, 2020). The cattle supply chain is very long and includes hundreds of thousands of indirect suppliers - many of them smallholders - making it a very complicated supply chain. With the exception of Uruguay, the level of control towards indirect (tier 1 and beyond) suppliers (farms for calving and rearing) is still limited. Farms that are not fully legally compliant can sell their cattle to slaughterhouses via suppliers who are legally compliant. The main tracking system is for disease control. Without a good traceability system a company cannot assure full legal compliance and no deforestation. Good initiatives are however underway. Sustainability commitments are still limited and sustainability standards for beef and leather are less adopted than the other commodities. In each producer country there are national platforms that relate to the Global Roundtable for Responsible Beef (GRSB). It is rather safe to assume that no smallholder farmer is certified and many of them will have a problem in showing full legal compliance. The direct suppliers to slaughterhouses - the majority, if not all, are not smallholders - will likely be able to show legal compliance but may be linked to legal deforestation.

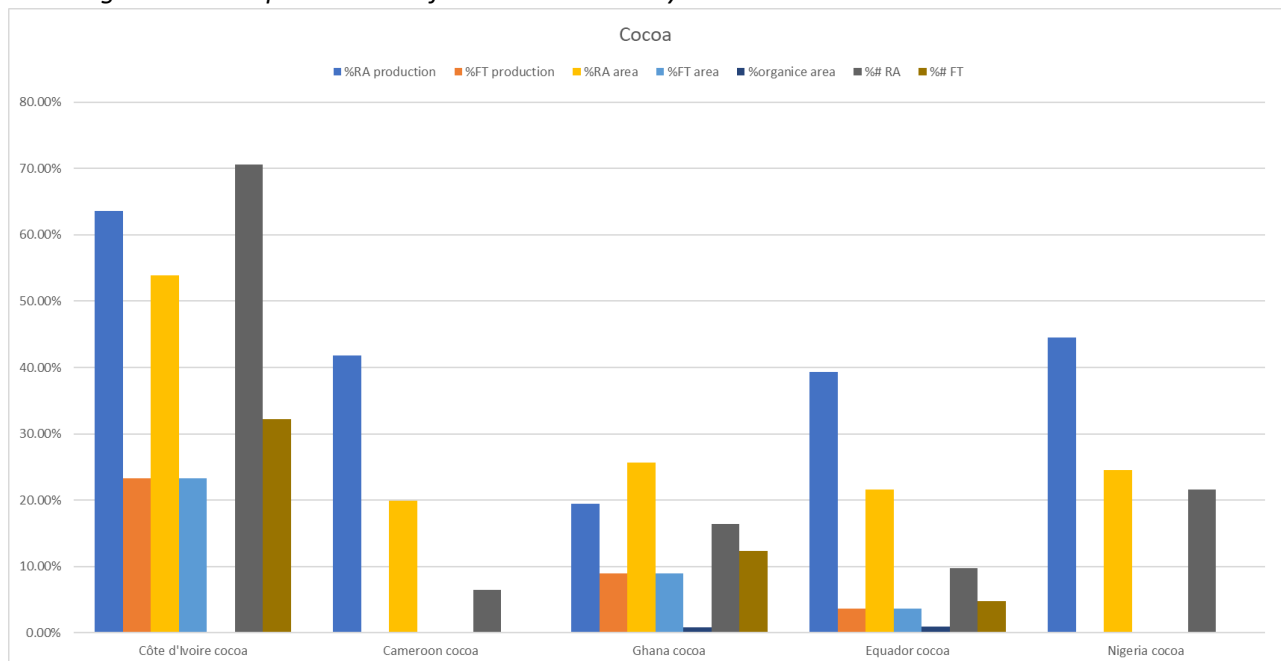
Cocoa

Smallholder cocoa farmers produce the cocoa and the majority have less than 2ha (table 1). An estimated half of global cocoa production is voluntarily certified (Cocoa Barometer 2022), mainly by Rainforest Alliance (RA) and Fair Trade (FT) and both demand legal compliance including legal land rights (FT as of 2019). Company members of the Cocoa & Forests Initiative report 72% of their direct supply as fully traceable (CFI, 2021). Especially in Ivory Coast the

¹³ <https://www.theguardian.com/world/2023/jun/28/organized-crime-drives-environmental-amazon-devastation>

share of certified area, production and number of smallholders is over 50% (note that Rainforest Alliance and Fair Trade have different criteria and cannot be added up because of risk of double counting smallholders that are certified for both). It should be noted however that all Ivory Coast cocoa farmers - as well as in other cocoa countries - are certified as a group. All cocoa farmers that are not certified are at risk of not being able to prove legal compliance. In addition, 15% of Ivory Coast' cocoa farmers are in formally protected forest areas¹⁴ and this cocoa can be greenwashed through legal farms. This incentive will persist as long as a farmer does not earn a living income.

Figure 2: Participation in certification standards by cocoa smallholders.



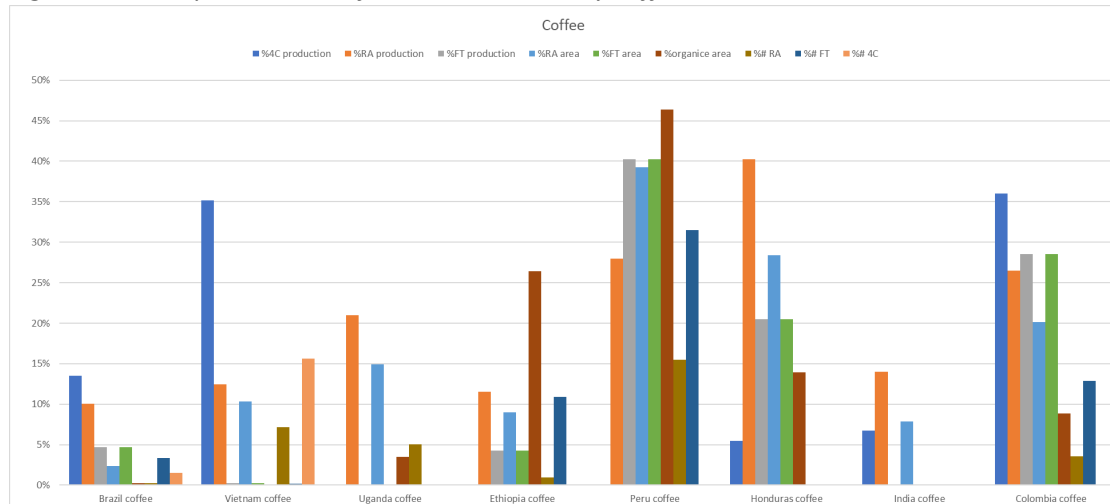
Area and production shares are calculated by dividing certification data (RA, FT, organic FiBL) with Faostat data. Shares in number of farmers are based on certification data from RA and FT with cocoa farmer numbers from various sources (Okoth, 2020; Ghana Cocoa Board).

Coffee

Europe is the largest market for sustainable certified coffee. According to the 2020 Coffee Barometer, about 55% of total global coffee production was certified, but 25% was purchased as certified by the industry. In major producer countries - with the exception of Brazil - smallholders dominate production. Brazil, the main exporter for the EU, has 500,000 smallholders with <5ha producing around 38% of the production. The majority is produced on larger estates. In Brazil, coffee production does not occur in regions at risk of deforestation. Globally, areas suitable for coffee production are shifting due to the climate crises.

¹⁴ <https://www.reuters.com/business/environment/study-finds-around-15-ivory-coasts-cocoa-farms-are-protected-forest-2021-05-06/>

Figure 3: Participation in certification standards by coffee smallholders.



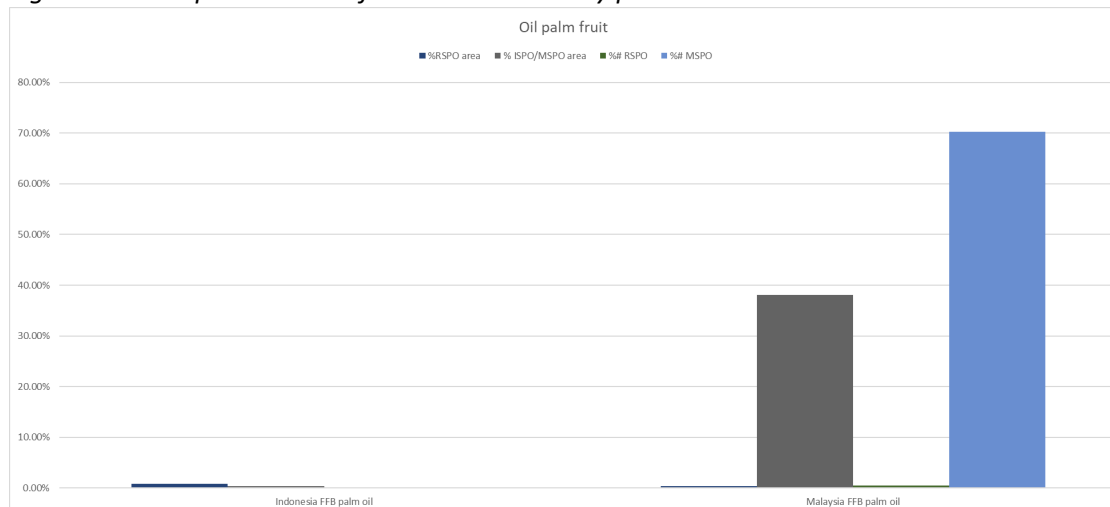
Participation of coffee farmers in RA, Fairtrade, Organic and 4C certification. Area and production based on FAOSTAT coffee data. Area and production shares are calculated by dividing certification data with Faostat data. Shares in number of farmers are based on certification data - if available - with coffee farmer numbers from IDHs country profiles (2019). For ease and consistency we have not split smallholders as 95% of farmers have <5ha (Coffee Barometer 2020).

Coffee seems relatively less advanced - compared to cocoa - in smallholder (group) certification even though there are millions of smallholder farmers. This is also reflected in Brazil's certification data: the area and volume of certified coffee is around 10 times higher as the number of farmers participating and farmers are more often certified as individual farms compared to groups of farmers (this level is higher in African countries). This could mean that the larger farms are able to comply and achieve certification and export to the EU, and for others it is too cumbersome or costly. In Ethiopia uptake of voluntary certification is relatively low, but the area under organic production is highest.

Palm oil

The number of smallholders in palm oil production range from 1.4 million in Indonesia to 4,800 in Colombia. A distinction needs to be made between smallholders participating in company schemes and independent smallholders (Solidaridad 2022). In Indonesia 75% of the 1.4 million palm oil smallholders are independent (Solidaridad 2022), of which only 10,953 have a certification through RSPO and ISPO (Pramudya, 2022). Scheme smallholder RSPO certification includes 119,856 farmers (25% of the total = 365,000) (RSPO Impact Report 2022). Independent farmers may lack ownership documentation while larger scale investors could have illegal expansions and planting in (protected) forest or peatland areas (Jelsma, 2017). A recent study (CASA, 2023) showed that the EU+UK market import less than 10% of Indonesia's production, which would include 5-10% of the smallholder farmers. Those that are certified are expected to retain their access, those that are not certified and not participating in a company scheme will probably switch to less stringent markets.

Figure 4: Participation in certification standards by palm oil smallholders.



Participation of independent oil palm farmers in RSPO, MSPO and ISPO as part of certified area and number of smallholders. Area and production shares are calculated by dividing data from MSPO-Trace website, RSPO Impact Report (2022) and ISPO (Pramudya, 2022). Shares of certified number of independent oil palm farmers are from these sources as well and were divided by total independent farmers based on the Solidaridad palm oil barometer (2022).

In Malaysia, around 86% of smallholders are independent. Over 70% of independent smallholders have MSPO certification (MSPO Trace website), which assures legal compliance. Independent smallholders without technical and financial support from schemes or MPOBs assistance centres still face issues in Johor (land tenure), Sarawak (land rights) and Sabah (living income and certification) (ISEAS, 2020). RSPO certification in Malaysia includes only 30 scheme smallholders (on an estimated total of 40,000), and 1,324 independent farmers (out of 260,350) (RSPO Impact Report 2022). RSPO certification of smallholders just started in Colombia although Cenipalma’s Sustainability Index is already monitoring 1,944 independent smallholders in Colombia¹⁵.

RSPO certification (costs, capacity) is easier to achieve for company plantations than group certification for independent smallholders. Because only around 30% of global palm oil production comes from independent smallholders - many of them linked to the domestic market - there is limited incentive for downstream companies to invest in independent smallholders.

Whether an oil palm farmer is able to reach RSPO certification depends on precertification situation, such as unclear land rights, group organisation and local supply chain conditions (De Vos, 2023). 77% of independent smallholders that are RSPO certified are former scheme smallholders as they have clear legality and are organised into a group - group organisation is a RSPO criteria for smallholders. While others might prefer not to become certified because they prefer to remain independent or cannot afford to invest high costs associated with becoming certified. Independent smallholder RSPO certification has only been successful when farmers have received external support from NGOs or companies.

¹⁵ [barometerOfSustainablePalm2020.pdf \(solidaridadlatam.org\)](https://www.solidaridadlatam.org/barometerOfSustainablePalm2020.pdf)

Natural rubber

There is much less attention for natural rubber than for the other commodities, although various studies and initiatives exist to reduce risks of natural rubber production. Studies estimate that an additional 4.3-8.5 million hectares of rubber plantations are required to meet projected demand by 2024. In the producer countries in Southeast Asia, rubber is expanding in forest areas and is associated with legal and illegal deforestation. There are some companies that have individual sustainable natural rubber policies (e.g. Pirelli) or a deforestation commitment (Michelin). Michelin and General Motors adopted a zero-deforestation policy for rubber in 2016, which calls for respecting local communities' rights to reject plantations and barring sourcing of rubber from newly cleared primary forest, High Carbon Stock and High Conservation Value areas. A Global working group for Sustainable natural Rubber (GPNSNR) has been established but there is no voluntary sustainability certification standard yet. The GPNSNR has set up a Smallholder Working Group and includes smallholder representation in their governance structure. Besides impact on biodiversity and tropical forests, the labour intensity versus volatile and low prices threaten farmer livelihoods (which also affects living wage of hired rubber labourers). Good Agricultural practices, labour shortages and diseases are also an issue (Jayathilake, 2023).

Major differences between exist between producer countries. Thailand rubber farmers perform better socio-economically and environmentally (high income with low expansion into natural forest) compared to Indonesia and Ivory Coast. Ivory Coast shows higher average income for farmers, but workers income is considerably lower and expansion into natural areas is also more common. At the same time, rubber as a commodity diversification crop in cocoa plantations, has the highest potential positively to contribute to living income of farmers but smallholders seeking to diversify will face double costs for the necessary certifications and EUDR risk mitigation measures. Indonesia has average low farmer and hired workers income and similar risk of expansion into natural areas (Jayathilake, 2023). Rubber expansion in Côte d'Ivoire increased the past 10 years, includes deforestation.

The EUDR requirement of 'no deforestation' seems less relevant for smallholders already involved in the European market supply chains, than the risk of not being able to prove 'legal compliance'. By addressing the latter there will be also more insight on addressing the deforestation requirement.

6 Observations and next steps

Smallholder inclusion

The commodities the ADP focuses on are mixed with various origins at every possible moment of collecting, storing and processing in the supply chain. This means that in theory all commodity producing farmers in a country could be part of the export to the European market. The previous chapter provided contextual information showing it is difficult to separate the living income discussion from an EU related commodity farmer from the sustainable development of its community and poverty and development of its country. Poverty is an obstacle for making supply chains sustainable and a major root cause of deforestation.

Smallholder farmer poverty reduction has been a topic for development cooperation for decades. But nowadays, there is a stronger recognition of the role of companies, and the political-economic system in the producer countries. Smallholder inclusion into global supply chains has pros and cons, and fair prices and a living income are not a given. On the contrary,

diversification may be a better livelihood strategy for some farmers and communities (see annex 1).

Box 2: Issues mentioned in this policy brief and studies:

Hard constraints:

1. Farm size and location (remote or not)
2. Agro-ecological potential (fertile soil, water)
3. Climate risks and adaptation potential
4. Market access supported by sufficient transport infrastructure
5. insufficient education
6. Access to health services
7. Proofing legal tenure and compliance
8. Clear land release and lease procedures

Soft constraints:

9. Complying with food quality, safety and environmental standards
10. Costs involved for (proofing) legal compliance and sustainability (certification)
11. Level of organisation and role of farmer cooperatives (economy of scale)
12. Adoption of best practices and skills
13. Living income, health and nutrition
14. Inputs (e.g. fertiliser, quality seedlings) to raise production and yield
15. Storage facilities to reduce post-harvest losses
16. Lack of finance, credit and (climate) insurance
17. Market premiums as sustainability compensation
18. Carbon payments to keep forests standing

The best support strategy is a mix of farmer-oriented and community-oriented support measures. To drive systemic change in agriculture three pillars need to be considered: (a) legislation, (b) policies and (c) pre-competitive collaboration (i.e. partnerships). We need to be clear about the business and social case for companies and country governments for no deforestation and no poverty, especially with the current climate crises and economic uncertainty, to enhance security for all.

Focus commodities

For ADP, important commodity production chains with many smallholders are cattle, cocoa, coffee, palm oil, and natural rubber. Further discussion is needed within ADP regarding addressing “smallholder exclusion risk commodities” and high forest cover regions where expansion risk is high. But the legal compliance requirement seems the most difficult one for farmers participating in or close to existing supply chains.

Natural rubber and coffee are underexposed commodities in ADP. In coffee and natural rubber production is dominated by smallholders (85-90%), living incomes and wages are low and there is a risk of exclusion. More attention could mean outreach to new (for ADP) producer countries such as Ethiopia (coffee), Cameroon and Thailand (rubber) or building on existing relations such as Indonesia and Côte d’Ivoire for rubber

Producer countries government

Governments of producer countries and sub-national jurisdictions - including better coordination between them - have a key role to play for supporting enabling conditions smallholder inclusion, such as securing and documenting land rights; up-to-date land-use maps; clear land release and lease procedures; law enforcement; implement strong traceability systems; market infrastructure; access to education, social protection and health services; and supporting wider rural economic development and off-farm employment

opportunities. Producer countries need support for this development from consumer countries.

Supply chain stakeholders

Successful inclusion of smallholders also requires good governance, enforcement, and fair purchasing practices. Participation in voluntary sustainability initiatives is highest among cocoa farmers, followed by coffee while low in oil palm and absent in natural rubber. See dashboards of [RA](#), [Fairtrade](#), [MSPO](#) and [RSPO](#) for more figures. Companies have an important role in ensuring fair prices as part of a living income strategy and facilitating access to soft constraints for smallholder inclusion (see box above). Third party certification standards have experiences and processes that can verify legal compliance and no deforestation. The role of these standards in the EUDR is yet not fully clear.

Next steps

- First and foremost a more in-depth discussion is needed on what smallholder inclusion means for ADP, the potential scope of actions, and subsequent actions.
- Further discussion is also needed with external commodity stakeholders for further insight in the readiness of producers for EUDR compliance, especially in coffee, natural rubber and those producer countries ADP is currently not engaged with.
- Joint research is needed on the readiness of producers in the commodities within the scope of the EUDR, producing countries and specific regions therein to become compliant with the requirements of EUDR as well as the new Directive on Corporate Sustainability Due Diligence on the basis of existing tools.
- Draft policy briefs on coffee and natural rubber on EUDR compliance, trade flow into Europe and the stakeholder views.
- Draft a policy brief on the context of smallholder farmers in high-forest cover regions that are currently not producing commodities for the European market in high volumes.
- More information and data is needed on the living income gap in the specific commodities and the producing countries or regions, the role of companies, and the value distribution in that supply chain.
- Identifying and sharing lessons learned regarding smallholder inclusion and living income from on-going programmes supported by ADP-countries.
- Further dialogue with expert stakeholders and analysis is needed to enhance the living income of smallholder producers¹⁶. Topics include fair pricing, collective bargaining power, access to finance productivity enhancement., climate insurance, access to quality inputs, and adoption of best practices and skills (see also box 2). This will not only improve smallholder livelihoods but also enable them to become more sustainable. Lessons can be learned from the cocoa sector and shared with other commodities.
- Explore further the role of national systems in assuring legal compliance by smallholders and how these systems can be effectively implemented in time, and discuss the evolution of parallel company traceability systems, thereby presenting farmers with multiple systems and associated costs.
- Further discuss the role of certification standards vis-à-vis smallholder inclusion. The differences between the commodities is large and there is probably opportunity for cross-learning.
- Facilitate - or continue - the dialogue with some producer country governments on meeting the new market requirements effectively based on existing regulation,

¹⁶ <https://www.living-income.com/single-post/turning-the-living-income-vision-into-a-reality>

standards and initiatives (examples Brazil, Indonesia, Ghana, Côte d'Ivoire and via initiatives such as APOI, FACT and TFA). More attention is needed for other commodities from the same country.

- Facilitate further stakeholder discussions towards the ADP-MSM 2024.

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Annex 1 : Typology of smallholder farms and appropriate strategies and interventions.
 Source: Shenggen Fan, Breska J., Keyzer M., Halsema A. (2013). From subsistence to profit: transforming smallholder farms. IFPRI Food Policy Report ([link](#)).

TYPE OF FARM	CHARACTERISTICS	STRATEGIES		
		Agriculture-based	Transforming	Transformed
Subsistence farms	With profit potential	<ul style="list-style-type: none"> • Productive social safety nets • Investment in infrastructure, agricultural research and extension, and smallholder-friendly and climate-smart technologies • Access to innovative financial services 	<ul style="list-style-type: none"> • Flexible arrangements for land transfer • Risk reduction and management tools • Access to market information (e.g., ICTs) • Pro-smallholder, nutrition-sensitive value chains • Social safety nets and improved access to housing, education, and health services for rural migrants • Vertical and horizontal coordination to meet safety, quality, and quantity standards • Enhanced role of farmers' organizations, particularly for women farmers 	<ul style="list-style-type: none"> • High-value production • Reduced trade restrictions and subsidies • Flexible arrangements for land transfer • Efficiency- and quality-enhanced production systems • Vertical and horizontal coordination to meet safety, quality, and quantity standards
	Without profit potential	<ul style="list-style-type: none"> • Soft constraints plus hard constraints to land size and agricultural production • High population density • Low quality soil • Low rainfall and high temperatures • Remote location 	<ul style="list-style-type: none"> • Social safety nets • Nutrition-focused crop production for own consumption • Education and training for nonfarm employment • Migration to urban centers and other agriculture areas with greater profit potential 	<ul style="list-style-type: none"> • Social safety nets • Improved access to housing, education, and health services for rural migrants • Education and training for nonfarm employment • Flexible arrangements for land transfer
Commercial smallholder farms	<ul style="list-style-type: none"> • Soft-constraints • Limited access to capital, insurance, and other risk reduction tools 	<ul style="list-style-type: none"> • Vertical and horizontal market coordination to meet safety, quality, and quantity standards • Smallholder-focused, climate-smart, and nutrition-enhancing technologies • Investment in infrastructure, agricultural R&D, and extension 	<ul style="list-style-type: none"> • High-value and nutrition sensitive food chains • Flexible arrangements for land transfer • Links to urban and global markets • Vertical and horizontal market coordination • Enhanced role of farmers' organizations, particularly for women farmers 	<ul style="list-style-type: none"> • High-value crops • Flexible arrangements for land transfer • Clear regulatory frameworks and intellectual property rights to link private sector with smallholders