Cracking the Nut: Increasing palm oil yields and market access for smallholders

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Smallholders are critical to the deforestation debate

• They are numerous: c. 2 million
• Their yields are very low: c. 2 tonnes of CPO/ha
• We know how to increase their productivity
• By doing so:
  – We can double their output
  – Increase supply of certified, sustainable palm oil
  – Improve their incomes and livelihoods
  – Avoid deforestation
• All it takes is time, money and effort
Our proposal seeks to:

- Tackle the problem at real scale (c. 250,000 smallholders across 3 supply sheds)
- Create a scalable solution attractive to banks
- Ensure palatable costs to producers and purchasers of palm oil
- Catalyze partnerships to deliver these outcomes
Our approach was based on expert assistance in:

- Asian Agri
- First Resources
- Good Hope
- IOI
- PTPN III
- PT SMART
- Sime Darby
- Sipaf
- Socfin
- Ahold
- Johnson & Johnson
- Mars
- Mondelez
- Unilever
- Walmart
- NGOs
- Provincial Gov’t Offices
- Farmer groups
- Traders
- Smallholders
- Rabobank
- BCA
- Bank Sahabat
- BRI
- Bukopin
- CIMB Niaga
How we are going to do it

Program

3 supply sheds
- N. Sumatra
- C. Kalimantan
- Riau

Phased program
- Rehabilitation
- Replacement
- Replanting

Financing

Bank financing needed
$800M over 20 yrs

Finance cost reduction
$85M

Industry Guarantee Fund
$50-$215M over 20 yrs

Outputs

Production Targets over supply sheds (MT/yr)

Avoided deforestation
Reduce expansion potentially over 380,000 hectares
Average livelihood increase of 50-80%
$2,000 per year
Three supply sheds

- 250K smallholders
- 500K hectares
- Initial 7 year phased program

Smallholder Crude Palm Oil yield improvement

- 2013: 1.00
- 2020: 3.00 (66% increase)

Locations:
- North Sumatra
- Central Kalimantan
- Riau
Two smallholder business models

**Farmer Development Centre**
- Smallholder supply base
- Farmer Development Centre (FDC)
- Supply contracts between FDC and multiple mills
- Guaranteed off take for smallholders year round

**Outgrower**
- Smallholder supply base
- Mill to smallholder supply contract
How to cover the financial model

**Total investment**

- **$800M**
- over 20 years

**Benefits**

1. Increase in total oil volume
   - **7.4MMT**

2. Increase in segregated total oil volume
   - **5.1MMT**

3. Avoided deforestation
   - Reduce expansion potentially over **380,000 hectares**

4. Average farmer livelihood increase of **$2,000 per year**

**Financing cost reduction**

- **$85M**

**Expected loss insurance**

- (Industry Guarantee Fund)
  - **$50-215M**
  - over 20 years

**Cost per MT of oil per annum (for 7 years)**

- **$1.00 - $2.25**

**Fully bank funded**

- 50% Donors
  - + Purchasers
What does partnership look like?

- Government of Indonesia
  - Create enabling environment and policies

- Producers
  - Include smallholders in their sustainable production programs

- Purchasers
  - Source from targeted supply sheds
  - Include smallholder sourcing targets in procurement policy

- Banks
  - Provide financing to smallholders

- Donors
  - Channel investment into program

- NGOs/Associations
  - Capacity building
  - Monitoring and evaluation
Next steps

• Develop the program with:
  – Producers
  – Purchasers
  – Government
  – Donors and financial institutions
  – NGOs/Associations

• Address the manageable regulatory hurdles

• Optimise the program design and implementation plan

• Start in one of the supply sheds