



PALM OIL SMALLHOLDER FINANCING FOR SUSTAINABLE LANDSCAPES AND LIVELIHOODS

Indonesia's oil palm farmers hold the key to balancing growth and sustainability when given access to the essential tools needed for their crops to prosper. One vital resource is financial capital and the knowledge to manage it efficiently, which consequently can mitigate environmental impacts.

Why Smallholders Need Financing

To support Indonesia's targeted increase of crude palm oil (CPO) production to 40 million tons per annum by 2020, the capacity of smallholder and independent farmers must be increased simultaneously. Currently, many smallholder farmers do not use good quality seedlings and do not apply appropriate amounts of fertilisers to their plots. These inefficient farming practices are most commonly due to a lack of financial capital and a lack of oil palm cultivation knowledge, leaving the farmer with little choice but to make do.

Studies show that these unproductive farming practices have direct impacts on overall yield. Data from the Indonesian Ministry of Agriculture indicates that smallholder yields are approximately 11-14 percent lower than that of large-scale plantation companies. Furthermore it has been found that many smallholder oil palms are not reaching maturity due to poor farming and inferior inputs. Intensifying smallholder oil palm yields through effective agricultural practices would put less pressure on the expansion of the commodity, especially into forested areas.

What's Already in Place?

Currently there are many valuable financing initiatives and pilot projects in place to support smallholders by giving them access to much-needed capital. Such schemes include individual corporate social responsibility (CSR) projects from the private sectors and the enhancement of government regulations regarding the establishment of plasma smallholder programs.

While many of these efforts have proven relatively successful, in order to truly transform the Indonesian palm oil supply chain, to become more sustainable and equitable, it is essential that all of the industry's estimated two million (possibly more) small-scale and independent farmers be reached with adequate support. Such a scale-up would require unprecedented cooperation between the government, private sectors, international donors and civil society organisations as well as substantial multi-sector investment.

smallholder farmers are generally defined as managing a plantation that is less than 25 hectares in size.

The Indonesian Government's Plasma program is designed to assist smallholders to become independent plantation growers. Companies are expected to develop oil palm plantations in partnership with surrounding communities.

INPOP'S ROLE:

The way Forward

Acting as a multistakeholder convener, the government-led Indonesia Palm Oil Platform (InPOP) provides the appropriate forum to:

- **Highlight** essential mechanisms that provide smallholder financing for activities such as replanting and education around good agricultural practice.
- **Discuss** opportunities for better coordination and understanding of existing initiatives such as the CPO Fund, the government led revitalisasi or replanting program, private sector programs, and other non-government financing schemes.
- **Provide** input into the government's draft National Action Plan for sustainable palm oil in Indonesia, which is currently being developed by InPOP.

InPOP has convened several high-level advisory meetings including a discussion on smallholder financing. The outcomes of these meetings will be included in the official InPOP National Action Plan.



"An estimated two million smallholders produce more than a third of Indonesia's total palm oil output. In order to achieve sustainability across the entire industry it is essential that we invest in these farmers, enabling them to meet global standards and expectations while simultaneously improving their livelihoods."

Nicolas Guigas,
Senior Economist for the Trade
Promotion Division at the Swiss State
Secretariat for Economic Affairs (SECO)

"Indonesia acknowledges that ensuring sustainability is of utmost importance not only to maintain commodity competitiveness in the global market but also to follow through with the national commitment to food security as well as addressing causes of climate change. InPOP comes at a pivotal moment, providing a unique opportunity to find concrete and sustainable solutions for the palm oil supply chain."

Ir. Gamal Nasir,
Director General of Estate Crops at the
Ministry of Agriculture.

"The development of a sustainable Indonesian palm oil sector requires substantial investment and cooperation between the government, private sector, international donors, and civil society organizations. All players must come to the same table in order to find and agree on systematic solutions."

Andrew Bovarnick,
Global Head of the UNDP's Green
Commodities Programme.

"Compared to the other farmers in this area I think I have the least knowledge about palm oil. I try to copy what they do when they fertilise, I fertilise. My choice to take on palm oil has left me restricted with little control."

Bayu Hariadi, Petapahan Jaya
Village, Riau

"If the world wants sustainable palm oil, why should we be the ones who have to pay for it?"

Independent farming
cooperative, Riau

"There is hope for a next generation of palm oil farmers if the industry is managed professionally. Everyone needs palm oil so the global demand is always going to be there but the government must be proactive."

Hadji Zulkifri, palm oil trader,
Desa Kijang Makmur, Riau.

The Indonesia Palm Oil Platform (InPOP) is a government led multi-stakeholder forum with the aim of creating a National Action Plan for the sustainable development of palm oil in Indonesia. UNDP's Green Commodities Programme (GCP) fosters National Commodity Platforms like these around the world. These platforms are local initiatives, led and owned by government and driven by participants.

InPOP is supported by:



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