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Diagnostic Study on Oil Palm Smallholders in Indonesia

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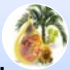
WBG Framework/IFC Strategy for Palm Oil

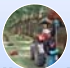
Stakeholder Input and Endorsement

15-month consultation

Discussion Paper	Stakeholder Consultations	Draft Framework	WBG Framework / IFC Strategy
Nov 09 - March 10	April - June 2010	June - Sep 2010	Sep 2010 - March 2011

Four Pillars


Develop enabling policy and regulatory environment


Mobilize private sector investment (E&S sustainable/ certified)


Enhance benefit sharing for smallholders & communities


Enhance uptake of sustainability codes of practice

World Bank, IFC Investment and Advisory Solutions and Partnerships

Key to success: Holistic view and understanding country, sector and project context

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The World Bank Group

- Largest multilateral financial institution owned by 188 member countries
- **World Bank** provides financial support (concessional loans + grants to poorest) and advice to *governments* (ex. health, education, regulatory reform, capacity building)
- **IFC** directly invests in and advises **private companies** and **financial institutions**
- **Multilateral Investment Guarantee Agency (MIGA)** provides **foreign investors** with insurance against political /non-commercial risks

In support of development and reducing poverty

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Why are we engaged in palm oil ?

The World Bank Group is a development institution and palm oil is a compelling development story

- **Food security**: the most consumed and traded vegetable oil globally. Key ingredient in many consumer products
- **Productivity**: agriculture must produce more from the same area to feed a world of 9 billion people by 2050
  - Oil palms are the most productive oil bearing plants
- **Poverty reduction/employment** impact is substantial—labor intensive industry which raises rural income and provides numerous social benefits
- **Environmental, Social & Governance** issues are significant and an area of strength of the World Bank Group

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Indonesia Palm Oil Program

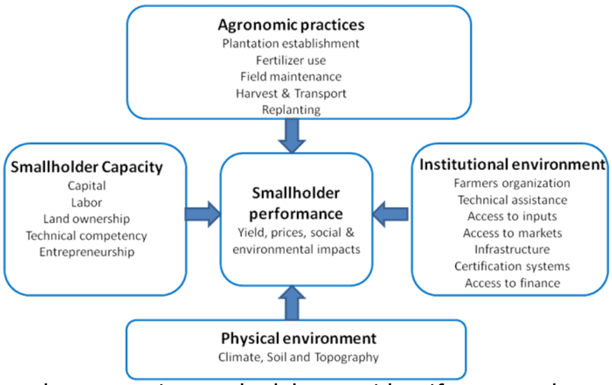
Goal	**Enhance livelihood and sustainability of smallholder production**
Outcome	**Sustainable business practices implemented by plantations and FIs that benefit 150,000 smallholders in oil palm sector**
Program Focus	Smallholder Development; Benefit Sharing; Sustainable Finance; Certified Sustainable Palm Oil Market Development

Diagnostic Study Objectives

- To develop a **diagnostic survey instrument** capable of evaluating smallholder production systems at various locations in Indonesia.
- To contribute to the **understanding of smallholders and their needs** by collecting and analyzing data about the challenges and status of investments in and by oil palm smallholders in Indonesia.

Research Framework

- Account for multiple aspects:



- Introduce a scoring methodology to identify gaps and compare smallholders

Diagnostic Tools

- Farmer survey questionnaire, including a checklist for field observations
- Farmer monthly monitoring logbook
- Benchmark questionnaire for plasma managers, mill managers, cooperatives and other resource persons
- Excel tool for data analysis
- Guidance documents for data collection and analysis
- Data sheets suitable for statistical analysis

Sampling

- Applicable to a specific geographic area or a mill supply base
- RSPO formula: N = (0.8√(population)) * z
  - z= expected variability in the sample size
- Smallholders should have:
  - Reasonable level of control over farm management
  - Producing plantations

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Summary of Diagnostic Study

Province (# of smallholders in local district)	Institutional Relationship to Smallholders	Smallholder Grower Base
South Sumatra (1,600)	Independent - Not tied to a particular CPO mill	1,600 independent
West Sumatra (16,000)	Cooperative under Tribal Leadership (Ninik Mamak) Tight Relationship to CPO Mill	2,100 tied and 5,893 independent
South Sumatra (57,000)	Cooperative (KUD), large base of schemed smallholders- Tied to Plantations Company	19,849 tied and 488 independent
Riau (47,500)	Smallholders able to sell to various CPO Mills	9,524 independent

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Smallholders Sample Distributions

Area	Respondents		Total
	Scheme	Independent	
South Sumatra	-	123	123
West Sumatra	52	115	167
South Sumatra	176	32	208
Riau	-	143	143
Total	228	413	641

Diagnostic Survey Results

Assumptions	Response by Surveyed Smallholders	Implications
Poor and correctable agronomic practices	**Mixed results:** Harvesting is frequent, but not complete. Lack of attention to good planting material. Input use is reasonably good.	**Quick win:** Improve harvesting and post-harvest practices. Is input utilization consistent with sustainable production? Is it efficient?
Lack of access to inputs	**Not supported:** Agrichemical inputs are readily available for purchase. Subsidized fertilizer is not consistently in the market Improved planting material is not widely used.	May have cost savings on inputs with better nutrient formulas. Less threat that subsidized inputs will undercut market based fertilizer.
Smallholders are interested in certification	**Not Supported (but not excluded):** Respondents do not know of RSPO certification. In sample size, there are no “red flags” for certification, i.e. most farmers have land titles, no land disputes, and plantings on mineral soils (not peat land)	**Demonstration effect:** Independent farmers may be upgraded to be certified

Diagnostic Survey Results

Assumptions	Response by Surveyed Smallholders	Implications
Poor access to agronomic knowledge and technical assistance	**Strongly support this**: Less than 27% have received any advice/training/extension	Training and technical skill upgrading should yield results
Poor access to markets	**Strongly supported**: No direct contact with mill. Often sell to one buyer (middleman), have no knowledge of sorting or quality grading process at the CPO mill.	**Quick win**: Farmers that sell to the mill receive 20% more; Mill may realize higher OER
Lack of access to finance	**Strongly supported**: 47% of respondents have no bank account; self-financed planting and inputs; very low or no savings towards replanting/operational costs.	Possibility to introduce a financing product for operating costs (inputs) or savings product

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IFC Next Steps

- Incorporate recommendations to improve final report of the study.
- Disseminate this diagnostic tools to companies.
- We are seeking an entity to continue promoting the diagnostic tool and creating a broad data set on Indonesia smallholder oil palm farmers and applying the tool to other sub-sectors.
- Seeking partners for pilot project in upgrading independent smallholders in Indonesia.
- Identify key sustainability issues in pilot project catchment area.

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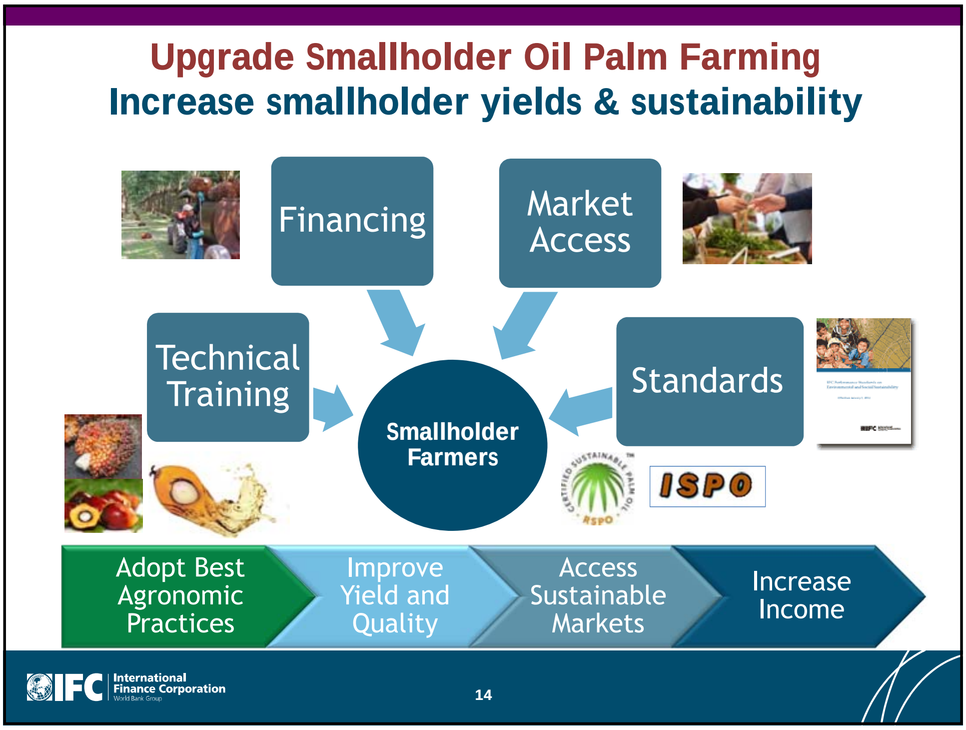

Thank You

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