



# How to cut the Gordian Knot – Sustainability and Yield Increase requires Investments

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# In many cases expansion into sensitive areas is the only option for smallholders to increase yields and income

- Currently, deforestation is mostly related to smallholders as expansion of large plantation companies is limited or no longer possible
    - Malaysia: Stop to palm oil expansion
    - Indonesia: Indonesian Palm Oil Moratorium
  - **Smallholders** are facing several **challenges**:
    - No access to finance
    - Unsustainable cultivation practices
    - Limited knowledge about Good Agricultural Practices (GAP)
- Hence, expanding into sensitive areas is in many cases the only option to **improve income and livelihood**



# Smallholders could achieve higher incomes through other measures than area expansion. However, upfront investments are required



Good Agricultural Practices (GAP)



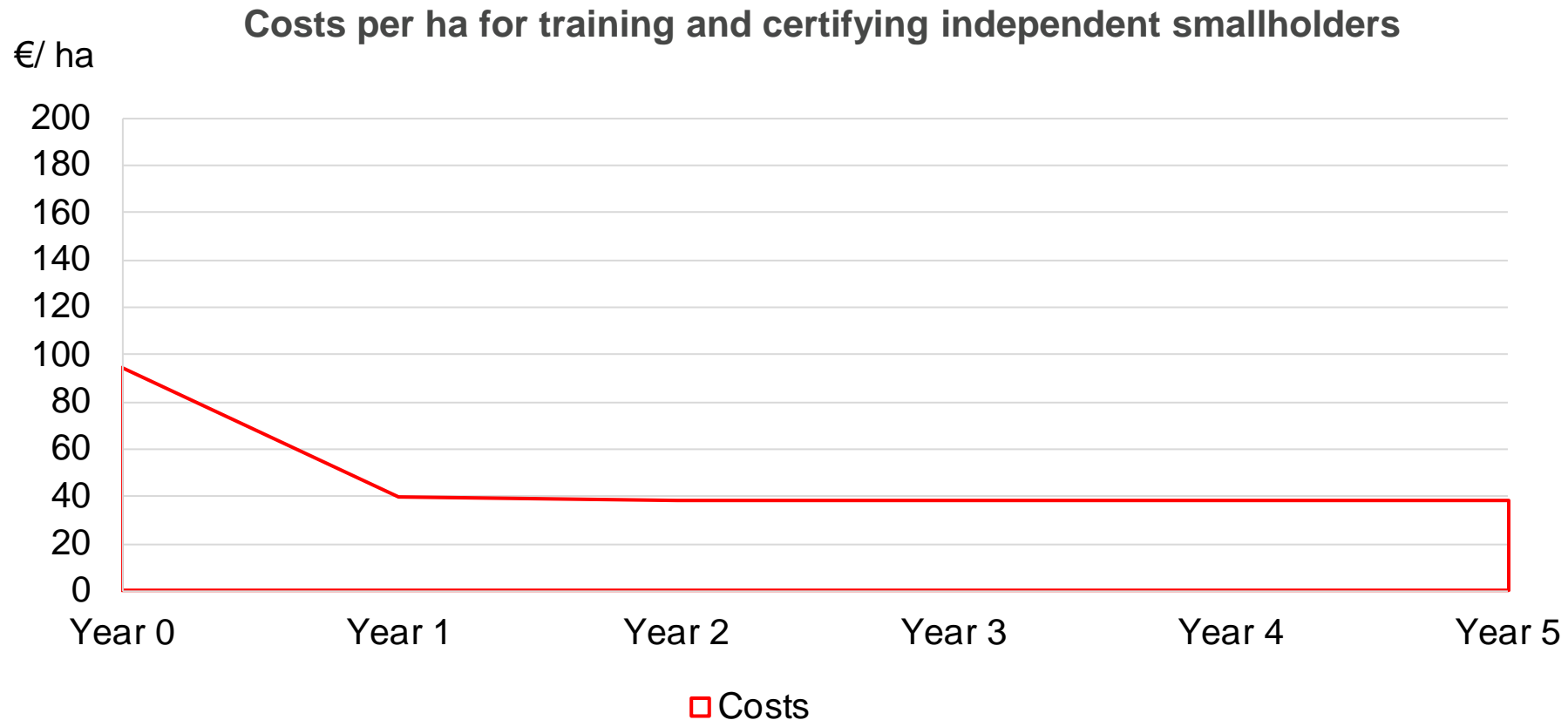
Certification



Re-planting

- Yields on smallholder plantations are far below the average yields, offering tremendous opportunities
- Realizing them requires **upfront investments** to allow smallholders to achieve **higher incomes**
- **Price premiums** do not really help at this stage as they are paid only for certified FFBs

# The implementation of GAP and ISCC certification requirements is associated with upfront investments

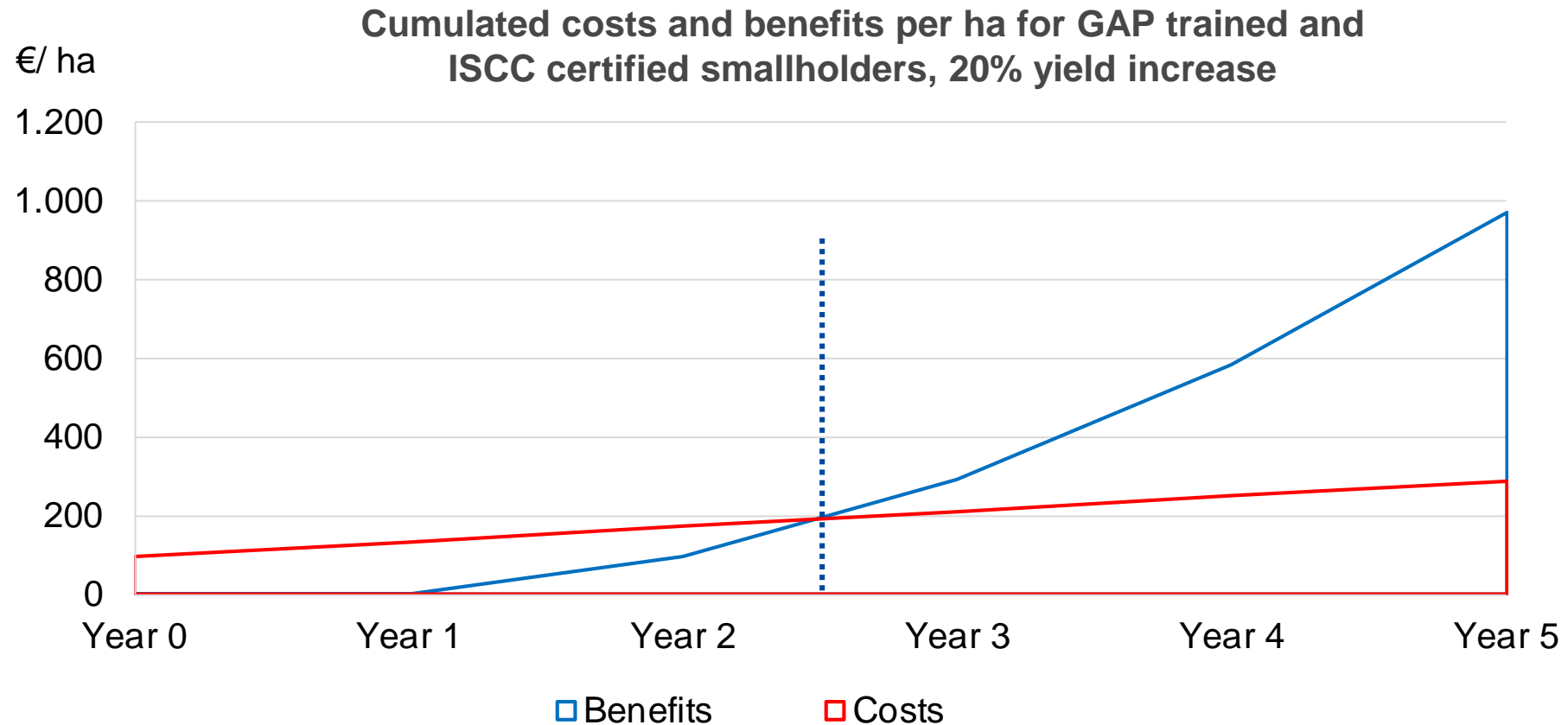


Parameters:

Number of smallholders: 2 500 ; Number of central office: 1 ; Average cultivated surface of one ISH: 3 ha; Average Yield: 18 t FFB/ ha

Source: On-field data Jambi province, SNV and Meo Carbon Solution estimations

# With 20% yield increase smallholders could achieve breakeven after 2,5 years



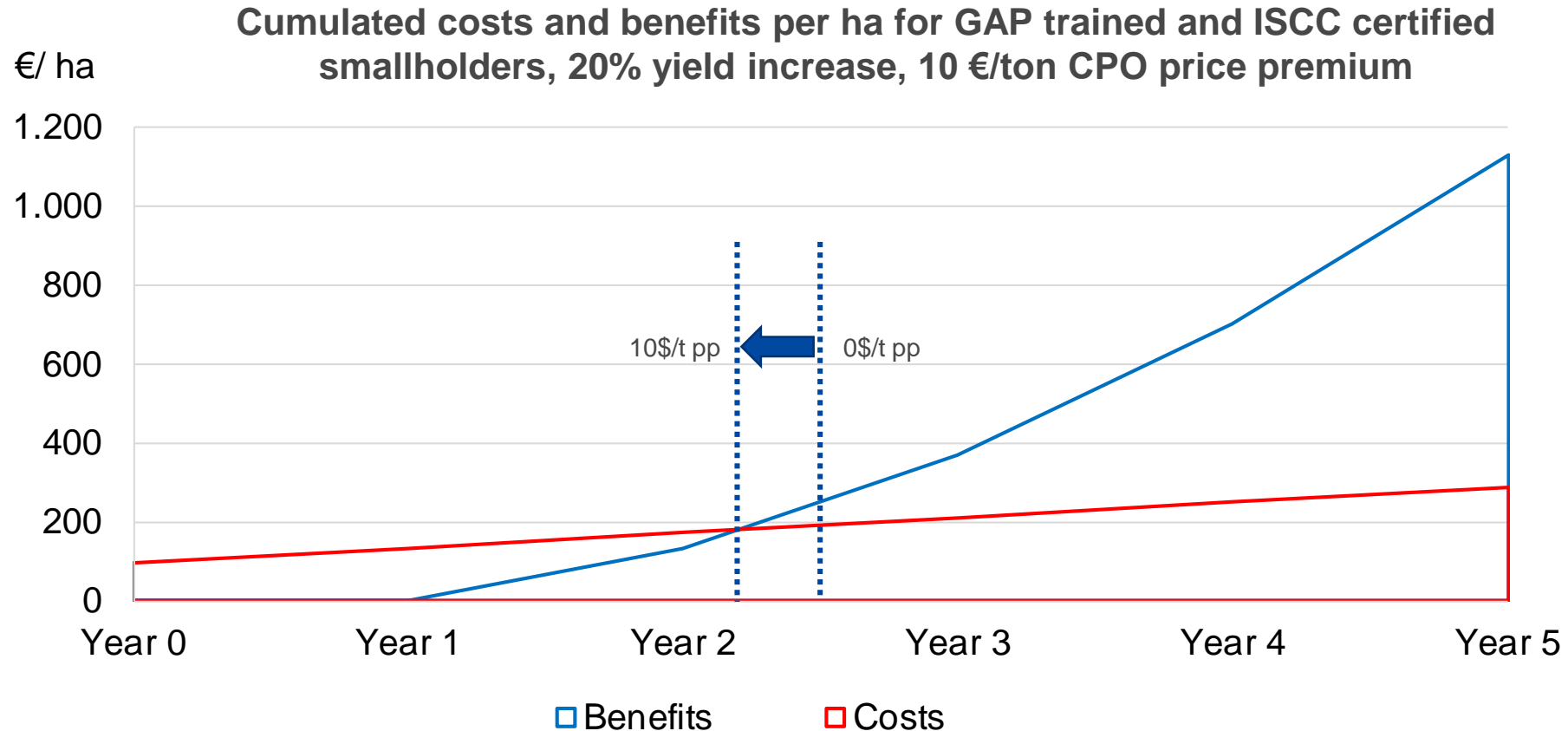
Parameters:

Number of smallholders: 2 500 ; Number of central office: 1 ; Average cultivated surface of one ISH: 3 ha; Average Yield: 18 t FFB/ ha;

Benefits: additional income due to yield increase

Source: On-field data Jambi province, SNV and Meo Carbon Solution estimations

A price premium of 10 €/ton for certified FFBs would reduce the time to breakeven  
 However, this does not solve the problem that upfront investment is required



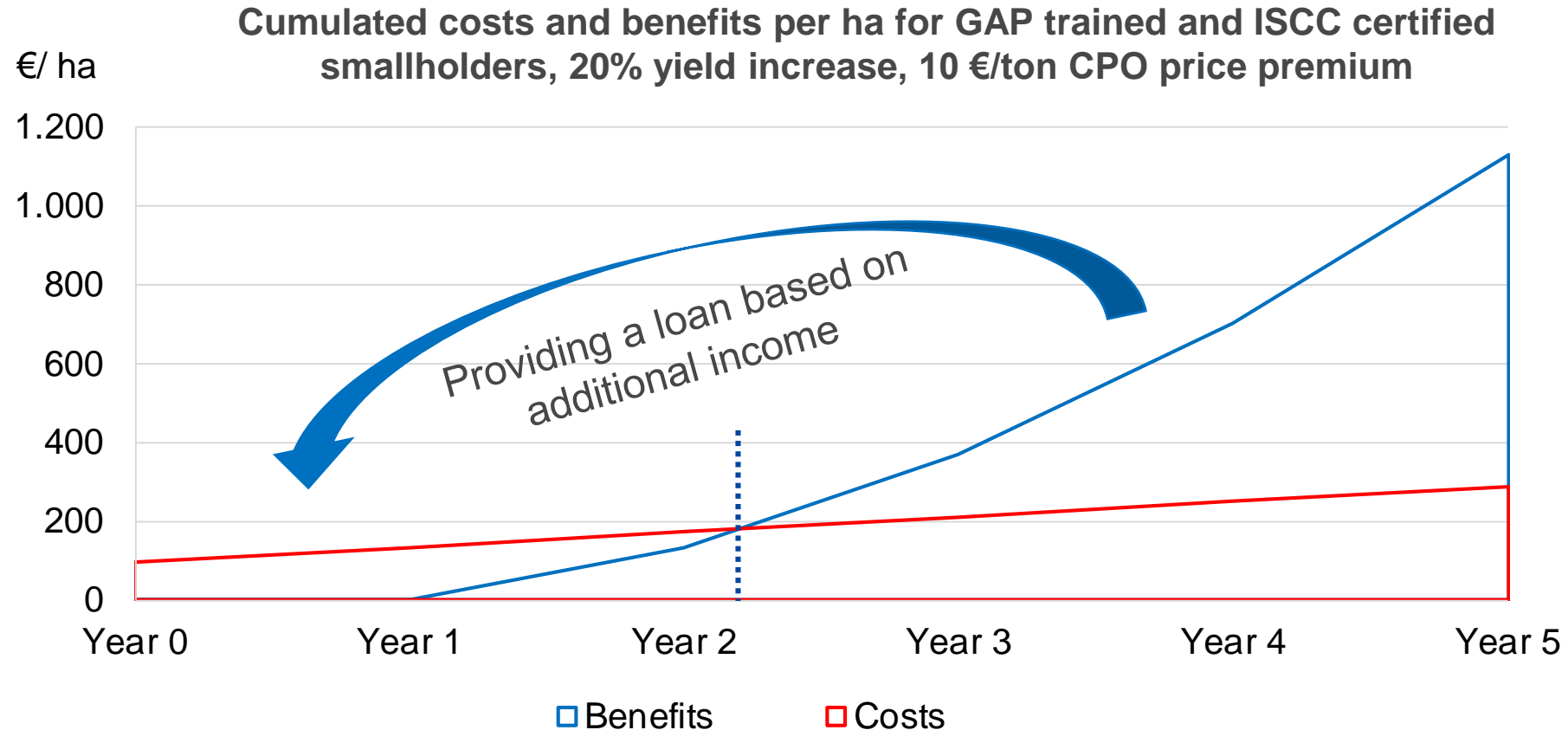
Parameters:

Number of smallholders: 2 500 ; Number of central office: 1 ; Average cultivated surface of one ISH: 3 ha; Average Yield: 18 t FFB/ ha; Assumed price premium (pp): 10 €/ t CPO;

Benefits: additional income due to yield increase.

Source: On-field data Jambi province, SNV and Meo Carbon Solution estimations

# Micro-financing could be the solution. Certified smallholders being monitored on a yearly basis could provide an attractive business case for financial institutions



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Microfinancing could provide smallholders with money upfront. However, financial institutions perceive smallholder loans as a high risk investment



- **Microfinancing** could provide smallholders with the resources to implement measures like re-plantation, good agricultural practices and certifications
- However, financial institutions consider **lending a loan** to smallholders a **high risk investment**
- Reasons:
  - Low creditworthiness
  - Risk to be blamed for supporting unsustainable practices in cases of smallholder related deforestation
- Solution: provide **smallholder portfolios** to banks which are based on **environmental and financial risk scoring**
- Provide credible **environmental and financial risk monitoring** services for smallholder portfolios





Many thanks for your attention!

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