



Investing in palm oil smallholders:

**Increasing yields, traceability
and sustainability in the supply
chain**

ISCC TC SEA Meeting

Jakarta, April 23rd 2014

ioh the sustainable
trade initiative

Executive Summary

IDH Palm Oil Program

- **Scalable**, coordinated approach to create **mainstream solution for traceability and smallholder integration**
- **Increasing palm oil production** while avoiding deforestation, raising the livelihoods of hundreds of thousands of smallholders, providing access to finance for working capital and longer term investments and making **traceable, sustainable** palm oil more **cost-efficient**
- Geographical scope: **Indonesia** and **Malaysia** (initially)
- Program duration: 7 years until **2020**

What is in it ISCC certified Mills?

- Opportunity to **leverage co-investment** in your **independent smallholders** and other **outside supply** base and getting them on board on **sustainability and ISCC certification**
- Increased **supply chain transparency and traceability**
- Greater **security of supply** and supply **volumes** through **increased production**
- **Brand/reputation**: Fulfill your sustainability commitment and attract long term sourcing commitment from buyers

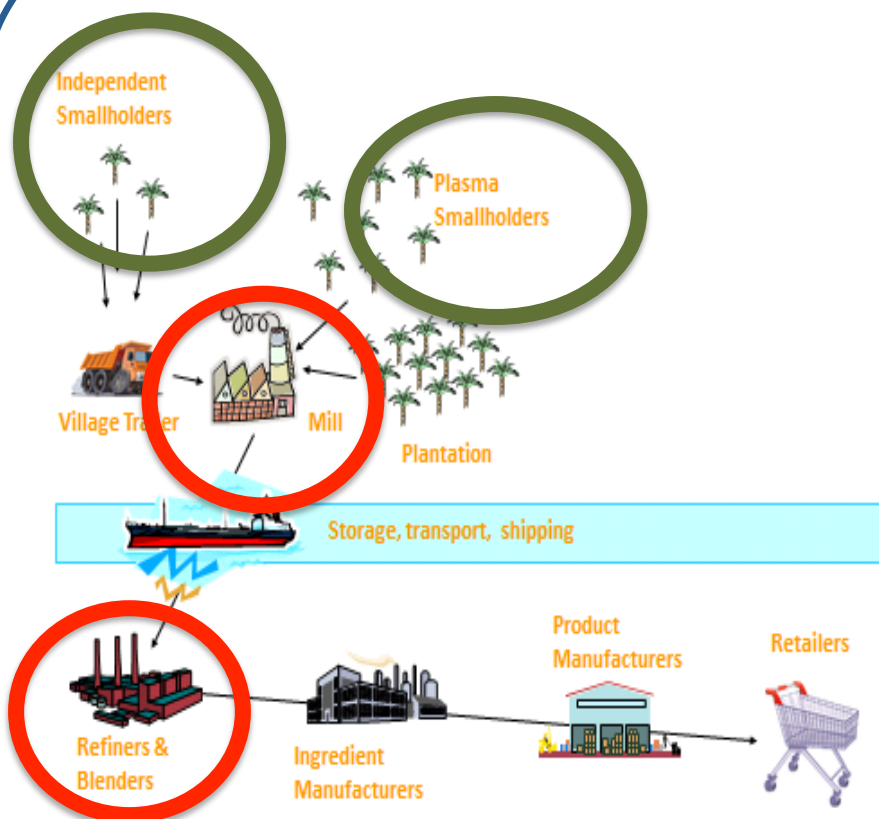
How does IDH add value?

- Co-funding for relevant investments – both cash & in kind
- Support in developing and implementing a monitoring system for deforestation
- Convenor to deliver scale and drive industry coordination
- Working to deliver solutions on traceability

Main objectives of the program

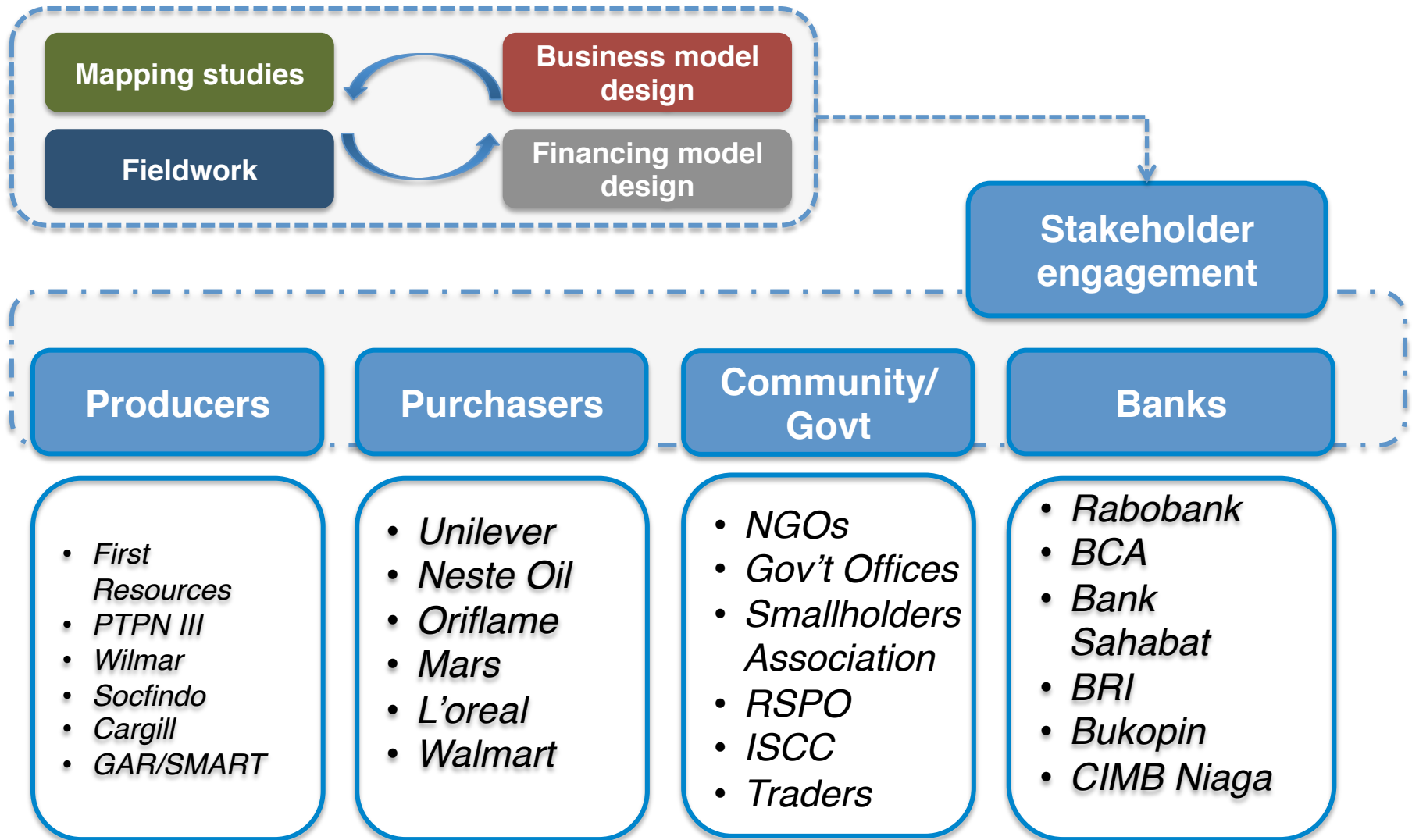
- **Avoid deforestation** by decoupling production gains from expansion on forested land through **robust monitoring and enforcement involving mills and local government**
- **Improve productivity** through good agricultural practices (GAP) training, access to inputs and finance for capital and longer-term productivity investments to achieve **yield increase on the same land area**, which also benefits livelihoods
- **Deliver sustainability & traceability** by leveraging **global partnerships with actors throughout the supply chain** to secure the investments needed
- By partnering with ISCC, the program could **ensure sustainability and traceability by getting the smallholders certified**

The supply shed approach



- **Supply sheds** are geographical areas from where the mills and refineries draw their supply
- IDH targets smallholders in these areas with **productivity support & financing** to increase incentives for delinking production from deforestation
- By implementing at scale, the program builds a **critical mass of supply of deforestation free palm oil**
- The need for segregation is removed, **reducing the cost sustainable, traceable oil**

IDH catalyzes partnerships for implementation*



*Illustrative purpose only

Prototype and path forward in 2014

- **IDH** brokered an MOU in November 2013 with **PTPN III** (mill group), **RSPO** and **Unilever** to develop a program in North Sumatra from 2014-2016
- Q2 2014: implementation will start with a prototype consisting of **568 independent smallholders with ca. 4000 ha** of land in Sei Mangkei sub district.
- Q3 & Q4 2014, program design and implementation is expected to start in South Sumatra, Riau and Central Kalimantan, alongside upscaling the program: **engaging more smallholders, mills, off takers & local governments**
- Assessments have also been made to scale up several existing prototype programs on palm oil smallholders in **Sabah with Wild Asia & Wilmar**

What would a project look like?

- Interested ISCC certified mills to sit down with IDH presenting their preferred sites for the project – preferably South Sumatra (Musi Banyuasin/Musi Rawas district), Riau (Pelalawan/Kampar/Rokan Hulu) and West Kalimantan (Ketapang)
- Once an initial site(s) have been agreed, the mill supported by IDH will prepare a proposal that will be finalized in a workshop together
- Moving towards the implementation stage by having an MoU signed and a baseline mapping conducted
- Investment in the smallholders: capacity building of the smallholders i.e. (GAP training), organizational development, GHG measurement, etc, moving them towards ISCC certification
- Developing a monitoring system that will be used to ensure no deforestation.

Proposed roles and responsibilities of partners

- The mills would map the smallholder base and provide support in trainings and implementation of Good Agricultural Practice (GAP) for the smallholders; the mill would also support in monitoring
- ISCC would contribute staff time, technical assistance and other agreed resources to assist the smallholders in getting ISCC certified.
- Off taker partners would invest through direct purchase of mass balance/segregated ISCC certified oil from the mill, with a possible role to also provide the technical assistance needed in the project
- IDH would co-fund against cash and in-kind investments made by the private sector (mills, ISCC and the offtaker partners) in the project. IDH would also provide support on the coordination of the project, in developing access to finance solution and support for monitoring

The benefits for the mills

Increased sustainability and traceability in a **more cost-effective** way:

- Increased **security of supply** and supply **volume** through better productivity and professionalism of smallholders
- Increased supply chain **transparency and traceability**
- **Co-funding** for relevant project investments (cash and in-kind)
- Fulfill your sustainability commitment and attract long term sourcing commitment from buyers
- **Financing** for preferred/strategic traders and smallholders from financial institutions