Oil Palm Replanting Investment Indonesia

INVESTING IN PORTFOLIOS OF SMALLHOLDER REPLANTING LOANS

Indonesia is the world’s largest palm oil producer. The sector provides employment to an estimated 1.5 million smallholder farmers. Expansion of production can enhance the economic conditions and livelihoods of independent smallholders, but is also a major driver of deforestation and climate change.

Under the MCA/MCC-funded Berbak Green Prosperity Partnership (BGGP), Financial Access, in close cooperation with SNV, has developed an oil palm replanting financing structure for independent smallholders in Jambi Province, Sumatra. The investment opportunity is aimed at impact investors seeking to invest in sustainable palm oil. The investment in replanting loan portfolios of pre-selected and well-organised oil palm farmers will result in higher yields on their existing farmland and will improve their livelihoods, without deforestation.

Oil Palm Smallholder Characteristics

- Indonesian smallholders account for about 40% of the total planted area, but only 30% of total output; increased productivity is critical;
- Significantly lower production per hectare than large-scale plantations due to weaker farming skills and lower quality input;
- Declining production yields and increased need for replanting: the average oil palm tree age is in Sumatra 19 years, nearing the end of economic life;
- Average of 2 ha farmer-owned land per farmer;
- Limited access to finance due to perceived high credit risks restricts the farmer’s ability to invest and improve efficiency and production quality;
- Limited direct access to markets for most independent smallholders.

Replanting Investment Approach

Financial Access has, in close cooperation with SNV, developed a customised replanting investment scheme for independent oil palm smallholders in the region. The scheme includes:

- Combined cash flow forecasting model and credit scoring tool to assess farmer data and generate individual credit risk profiles and credit scores of farmers requiring long-term financing;
- Portfolio approach: investment tranches with loans for initially 2,500 farmers, organized in 6 farmer cooperatives (KUDs) in East Jambi;
- Technical assistance program to ensure optimal production and sustainable farming practices;
- Value chain support: off-taker agreements with mills and end buyers for certified palm oil will ensure long-term commitment and future income generation for farmers.

Investment Opportunity

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<thead>
<tr>
<th>REPLANTING NEED</th>
<th>TOTAL INVESTMENT</th>
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<tbody>
<tr>
<td>USD 8,200/farm</td>
<td>Approx. USD 25 mln</td>
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<tr>
<td>FARM SIZE</td>
<td>LOAN TENORS</td>
</tr>
<tr>
<td>2 hectares/farmer</td>
<td>7+ years</td>
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<tr>
<td>INITIAL TARGET GROUP</td>
<td>IRR</td>
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<td>2,500 farmers; 6 KUDs</td>
<td>&gt;10%</td>
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Impact

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<thead>
<tr>
<th>ECONOMIC</th>
<th>SOCIAL</th>
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<tr>
<td>Higher yields on existing farmland</td>
<td>Improved farmer livelihoods</td>
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<table>
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<tr>
<th>ENVIRONMENTAL</th>
<th>IMPACT</th>
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<td>RSPO certified palm oil production, zero deforestation</td>
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Indonesia Palm Oil Production

Indonesia is the world’s largest CPO producer with 70% of its annual output being exported. The country plans to double production by 2020. In April, 2016 the Indonesian government has imposed a moratorium on oil palm expansion to prevent deforestation. Achieving higher yields on existing plantations has become essential to meet planned production targets.

Berbak Green Prosperity Partnership

The Berbak Green Prosperity Partnership is a MCA/MCC supported Public Private Partnership aimed at the rehabilitation of degraded peatland and to provide enhanced and alternative economic opportunities for communities in the Berbak region in Jambi Province, Sumatra. An important component of BGPP is to promote sustainable palm oil production and improving the economic livelihoods of independent smallholder farmers in the region.

Investment Structure

Impact Investor

Venture Capital Company

Farmer Coops (KUOs)

The VC company will have an agency agreement with the KUOs and thus will bear the credit risk.

Technical Assistance

Replanting Loans

Data input & Credit Scoring

Debt

SNV

Individual/Smallholders

Financial Access (FA) provides advisory, support and financing solutions to financial institutions in developing economies with dedicated focus on delivering innovative and sustainable agrifinance and supply chain solutions. The strength of FA lies in its ability to collect, analyse and apply different types of data to assess the financial strengths of smallholder farmers at individual, farm and aggregate level. FA works with banks, microfinance institutions and (impact) investors to improve and scale up lending to smallholder farmers at affordable rates whilst enhancing credit decision processes and lowering operating costs.

Replantation Results

Pre-replating

CPO private plantations rate farmer revenue

Post-replating

11.3 ton 1.9 tons/ha 7 billion

21.8 ton 3.7 tons/ha 13 billion

LOCATION

Jambi province, Sumatra, Indonesia

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