IFC’s Approach to Increase Benefits to Oil Palm Smallholders and Communities

RT9 Meeting
Smallholder Cluster 4
November 22, 2011
Who We Are, What We Do

- IFC is the largest global development finance institution focused on the private sector – the global leader in private sector development finance
- We create opportunity for people – to escape poverty and improve their lives
- Driven by our vision and purpose, we make a unique contribution to development
- We invest, advise, mobilize capital, and manage assets – providing solutions for an inclusive and sustainable world
• Context

• Focus on Smallholders and Communities
• Smallholder Diagnostic
• Improved Benefit Sharing and Engagement
WBG Framework/IFC Strategy for Palm Oil is Based on Four Pillars

I • Support the development of an enabling policy and regulatory environment

II • Mobilize private sector investment (environmentally & socially sustainable/certified)

III • Enhance benefit sharing for smallholders and communities

IV • Support the enhancement and uptake of sustainability codes of practice

The Framework/IFC Strategy seeks to take advantage of these opportunities via a holistic approach institutionally (World Bank & IFC), across the supply chain (growers, processors, buyers, retailers), and partners (government, private sector, CSOs)

www.ifc.org/palmoilstrategy
Integrated Approach to Oil Palm Development

Program streams:
- Smallholder Development
- Benefit Sharing
- Sustainable finance
- Uptake of sustainable palm oil

Targeted supply chain actors:
- Smallholders
- Plantations
- Financial institutions
- Suppliers and Consumers

Expected impacts and outcomes:
- Improved smallholder access to input supply chains and agri-finance services.
- Improved benefit sharing practices between smallholders, communities, and plantations.
- Improved FIs Social and Environmental Management Systems and RSPO memberships.
- Improved supplier traceability and market uptake of sustainable palm oil.
• Context

• Focus on Smallholders and Communities

• Smallholder Diagnostic

• Improved Benefit Sharing and Engagement
**Oil Palm Smallholder and Community Investment Project**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Components</th>
<th>Component Activities</th>
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</table>
| Bringing more benefits to smallholders and the communities affected by oil palm cultivation | Smallholder Diagnostic Survey | • Establish project baseline data  
• Better categorize smallholders and their needs  
• Test a survey instrument with 500 independent and tied smallholders in South Sumatra, Riau, West Sumatra, and West Kalimantan  
• Timeline: July 2011 - June 2012 |
| | Stakeholder Engagement and Community Investment | • Adapt IFC's *Good Practice Handbook for Companies Investing in Emerging Markets* to oil palm sector  
• Review of existing practices (e.g. desk based research, industry interviews, online survey)  
• In-depth case studies  
• Stakeholder engagement and outreach  
• Timeline: May 2011 - June 2012 |
| | Smallholder Development Financing Mechanism | • Working with the RSPO  
• Research and assist in selecting the mechanism for RSPO to help smallholders access the sustainable market  
• Mechanism will be global in reach  
• Timeline: December 2011 - June 2012 |
• Context
• Focus on Smallholders and Communities
• Smallholder Diagnostic and Yield Gap
• Improved Benefit Sharing and Engagement
Design a Smallholder Diagnostic Tool to Better Match Needs with Investment Solutions: Steps in the Design

- Site is the catchment area of a palm oil mill
- Sample a cross section of independent and schemed smallholders

Site Specific Survey Instrument

- Market segmentation of smallholders
- Identify drivers of development and gaps in skills and support

Understand localized needs and issues

- Well designed business plans
- Test and prove solutions
- Relevant to banks, palm oil mills, etc.

Better Solution Design
Areas of Inquiry for Increasing Smallholder Productivity

**Institutional Level:**
- Relation with OP mill
- Access to services and infrastructure
- Access to new technology and information
- Extension services

**Farmer Group Level:**
- Organizational governance
- Leadership
- Logistical services
- Perceived benefit of farmer organizations

**Farm Agronomy Level:**
- Following GAP
- Input use practice
- Planting material
- Harvesting practices

**Farm Business Level:**
- Financial literacy
- Debt management
- Savings
- Gender balance

**Expected Outcomes from the Field Survey and Analysis**

- Identify more inclusive business models
- Benchmark farmer group capacity requirements
- Identify input supply opportunities and regulatory constraints
- Identify financial needs and possible products for smallholders
An Example of a Work Program to Reduce the Yield Gap Between Smallholders and Plantations

Short-term Results < 1 year

- Introduction of systemic routine of harvesting
- Collection of loose fruits
- Training and technical assistance needed

Mid-Term Results 1 – 3 years

- Increase Fertilizer Use up to Recommended Levels
- Implement GAP and field upkeep
- Role for reputable input supplier and possibly input supply financing

Long-term Results 3-5 years

- Enhanced or Progressive Planting
- Need for institutional relationships: financing, nurseries, distribution to support planting

Source: Oxfam/Novib, Aidenvironment, 11/2010
Lesson from Other Projects: Inclusive Business Model to Improve Farmer’s Access to Inputs, Markets, Financing and Technical Assistance

Main IFC Project Components
1. Convene project partners
2. Assist in the design and development of the financial product
3. Assist in the selection and validation of the technical input package
4. Develop assessment and benchmarking tools for smallholder group management to assist with scaling up
5. Develop monitoring and evaluation tools and frameworks
Farmer Group Strengthening: Key Component and Constraint to Reaching Scale in Smallholder Sector

Is there a means to standardize farmer group formation? This would facilitate: (1) RSPO Internal control systems, (2) credit admin, (3) marketing, and (4) distribution of inputs.

By standardizing farmer group functions, leads to benchmarking performance—franchise the farmer organization business model—and take it to scale.
• Context
• Focus on Smallholders and Communities
• Smallholder Diagnostic
• Improved Benefit Sharing and Engagement
How: Benefit sharing: Managing complexity at the Local Level

- Land rights and land use conflicts
- Poverty and Livelihoods
- Benefits Sharing /Expectations
- Indigenous Peoples
- Gender
- Migrants
- Cultural heritage
- Environmental Impacts
- Smallholders
- Illegal logging
- Climate Change

Importance of a Good Strategy for Stakeholder Engagement and Community Investment

Uninterrupted Operations
How: Moving Towards Strategic Approach

Existing Resources and Tools

Industry tailored guidance to help client companies improve community engagement and community investment practices

Benefits to Communities

Benefits to Companies

Additional Research and Stakeholder Consultation
Opportunities for IFC Involvement with Smallholder and Oil Palm Affected Communities

- Engage with supply chain actors to develop improved services and linkages with independent smallholder growers, focusing on agricultural finance and improved input supplies

- Assist RSPO with design and establishment of formal Smallholder Development Financing Mechanism

- Engage with palm oil plantation to improve their stakeholder engagement and community investment approach as a model for the industry

- Continue support of smallholders to maintain and protect biodiversity through BACP (Biodiversity Agricultural Commodities Program)
Thank you