Golden Agri-Resources: Rejuvenating Farmer Incomes through Finance

Delivering a just rural transition by reversing declining yields through finance and certification support for smallholders

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Finance for Crop Rejuvenation by Golden Agri-Resources
Public-private partnerships to make supply chain finance work for smallholder and environment

Location
North and South Sumatra, Indonesia

Context
Around half the world’s palm oil is grown on plantations in Indonesia, where the cash crop supports the livelihoods of millions of people across the value chain.

Smallholders manage over 40% of the 4.5 million hectares of the country’s palm oil estates, making them crucial to the business of Singapore-based Golden Agri-Resources, a palm oil plantation company which sources heavily from Indonesia.

Challenge
For decades, Indonesian smallholders have lacked sufficient finance access to replenish their seed stock. Aging palm oil plants produce falling yields and incomes, forcing many smallholders to expand their planted area in response. This increases pressure on Indonesian forest ecosystems.

For farmers unable to expand their planted area, replanting may be the only option, but this risks acute livelihood insecurity. Replanting is expensive and takes time - it can take four years for a new tree to be productive, during which time farmers have to invest in new seedlings and fertilizers without a steady source of income.

Livelihood insecurity and low productivity among smallholders pose a critical business risk to GAR. Sub-standard yields add cost to GAR’s supply, and illegal deforestation forced by falling yields risks reputational damage and inflated insurance costs, as providers increasingly scrutinize supply chain practices.

“Many smallholders face an urgent need to replant their oil palm, replace aging trees, and improve their productivity through improvements in crop management.”

GAR Sustainability Team
Solution
To help farmers increase their yield and avoid informal practices, GAR launched the Innovative Financing Scheme in 2014, engaging in public-private partnerships to provide financial support to smallholders throughout seed rejuvenation.

The scheme involved GAR helping smallholders to secure state-subsidized loans from two public banks (Syariah Mandiri and BRI Agro) to cover subsistence costs during the four-year replanting period. GAR also arranged multi-year purchasing agreements with cooperatives to provide a steady supply of income for smallholders, as well as a reliable stream of raw inputs for the company.

GAR further assisted cooperatives by improving their access to certification through the Indonesian Palm Oil System, a government programme offering land certification, grants and training to enable farmers to better manage high-yield seedlings.

Impact
Farmers have seen incomes grow impressively throughout the project. For the 1,400 smallholders who have completed the four-year project cycle, yields have increased an average of 120%. Alongside higher yields, farmers spend less of their income on loan repayments, as the state-backed loans that GAR has supported them to access are subsidized. Benefits to farmers have also extended beyond the financial, as knowledge and training provided by GAR has provided important capacity-building.

GAR’s business has benefitted from a more stable supply of high quality, certified palm oil seed which on average produces double the amount of crude oil when extracted. Damaging deforestation practices have also been reduced within GAR’s supply chain.

“GAR/PT SMART has provided a lifeline for communities in the area, enabling the replanting of the palm estates.”
Regent Jeffrey H. Noer, Kampar District, Riau

Since 2014, the public-private partnership model has allowed GAR to help independent farmers secure loans of nearly USD 28.5 million from state-owned banks with only minimal direct financing.

GAR intends to expand the scheme to 20,000 smallholders by 2022, with an overall goal for the scheme to replant two million hectares of independent smallholder estates.

“The results are higher yields and incomes for the farmers, a greater and stable supply of certified palm oil for GAR, and reduced pressure on nearby forests.”
Regent Jeffrey H. Noer, Kampar District, Riau