Financial Access for Palm Oil Smallholders

FINANCING REPLANTING: INVESTING IN A SUSTAINABLE FUTURE FOR PALM OIL

The Need for Smallholder Replanting Loans

Indonesia is the largest palm oil producer in the world, providing livelihoods to an estimated 1.5 million smallholder farmers. While world demand keeps rising, smallholders are faced with decreasing yields, causing deforestation and climate change. To meet the rising demand for palm oil in the coming decades without further deforestation, smallholders urgently need to replant and improve productivity on existing plots by adopting more sustainable production practices. The long-term financing needs of smallholders provide a huge investment opportunity to investors, who can contribute to promoting sustainable development of the palm oil sector, as well as increased livelihoods for farmers.

Replanting Investment Approach

Perceived high risks and costs of agricultural lending deter banks and investors from providing long-term finance to smallholders. Financial Access has developed an oil palm replanting investment scheme for independent smallholders that mitigates these risks and costs. Our approach includes 1) cash flow forecasting and credit scoring 2) portfolio development of bankable farmers 3) development of partnerships to provide the support to farmers required for future repayment of loans.

Who Are We?

Financial Access (FA) is an international financial services advisory firm, focused on realising better access to finance for SMEs and smallholder farmers in agricultural supply chains in emerging markets. We provide expert knowledge to supply chain actors and develop and deliver tools for financial institutions to improve risk management, upgrade internal processes and lower financing hurdles.
Our Solution

FA has developed a combined Cash Flow Forecasting model and Credit Scoring Tool that allows to generate individual credit risk profiles and credit scores of farmers requiring long-term financing. We use the latest technology to collect, manage, analyze large amounts of data. By combining and analyzing a unique set of household, farm, financial and other data we are able to identify and pre-select groups of bankable farmers, and present those as a portfolio investment to potential investors and banks.

Scalable Impact

The Financial Access smallholder access-to-finance approach has the following advantages:

- Flexible: financing structure tailored to farmers’ and bank’s needs;
- Scalable: large-scale data collection conducted quickly, using affordable tablet and cloud storage technology;
- Replicable: data-enabled financial modelling and credit scoring allows for cost-effective identification of pools of bankable farmers;
- Actionable: our team has proven experience, resources and capabilities in target regions;
- Dynamic: credit profiles are updated periodically to provide up-to-date farmer ratings to lenders.

Track Record in Palm Oil in Indonesia

Berbak Green Prosperity Programme: development of a replanting financing scheme for oil palm smallholders in Jambi, Sumatra.

Oil Palm Farmer Scoring Tool: in cooperation with SNV, FA developed a tailored replanting financing model and credit scoring tool for oil palm farmers in Sumatra, to be used by financial institutions to assess credit risks of smallholders.

Kalimantan Oil Palm Farmer Business Modelling: design and piloting of new sustainable business models for oil palm smallholders in Berau, East Kalimantan.

SAWIT Innovation Award: in 2016, a FA-led consortium won an Innovation Award from SAWIT, a USAid-sponsored initiative, to promote and deliver innovative approaches for smallholder oil palm farmers in Indonesia.