



Asian Agri:

A Case Study on Responsible Investment into Palm Oil in Indonesia

ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry

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Executive Summary

This case study outlines the journey of Asian Agri in their investment into their palm oil smallholder partnership program in Indonesia.

Palm oil is a key driver of growth in the region, with 80% of the world's palm oil sourced from Malaysia and Indonesia, yet smallholder farmers receive few benefits.

Since the economic life cycle of palm oil plantations is 25 years and productivity decreases over time, replanting is an essential component of sustainable palm oil production and smallholder livelihood protection. In addition, producing certified palm oil can offer premium sharing returns to farmers.

As an investor, Asian Agri's aim was to support 30,000 smallholder households to meet a range of sustainability targets, including achieving sustainability certification and premium sharing for farmers, clearing land without burning, and replanting new palm oil trees. Each of these targets aims to improve productivity and therefore ensure steady palm oil supply for the company and farmer household incomes, while reducing extensification of agricultural land under palm oil cultivation.

In 2020 alone, the company invested about USD 2.7 million into the smallholder partnership program, covering the costs of about 200 field staff experts, cash incentives for higher quality yield, and premium sharing for Roundtable on Sustainable Palm Oil (RSPO) and International Sustainability and Carbon Certification (ISCC) certified palm oil. The investment is part of Asian Agri's **One to One Partnership Commitment** in which the company matches each of its own 100,000 hectares with one hectare of land owned by smallholders.

Since 2019, Asian Agri has reached its goal to provide direct support to 100,000 hectares managed by smallholder farmers to match the company's own 100,000 hectares under concessions, so the company is setting new sustainability targets.

Key learnings that emerged from their investment include:



Invest in understanding farmers' needs first to ensure replanting success.



Focus on creating shared responsibility for the shared revenue between farmers and the company.



Leverage technology and training to intensify production (i.e. replanting on the same land) to reduce deforestation and degradation.

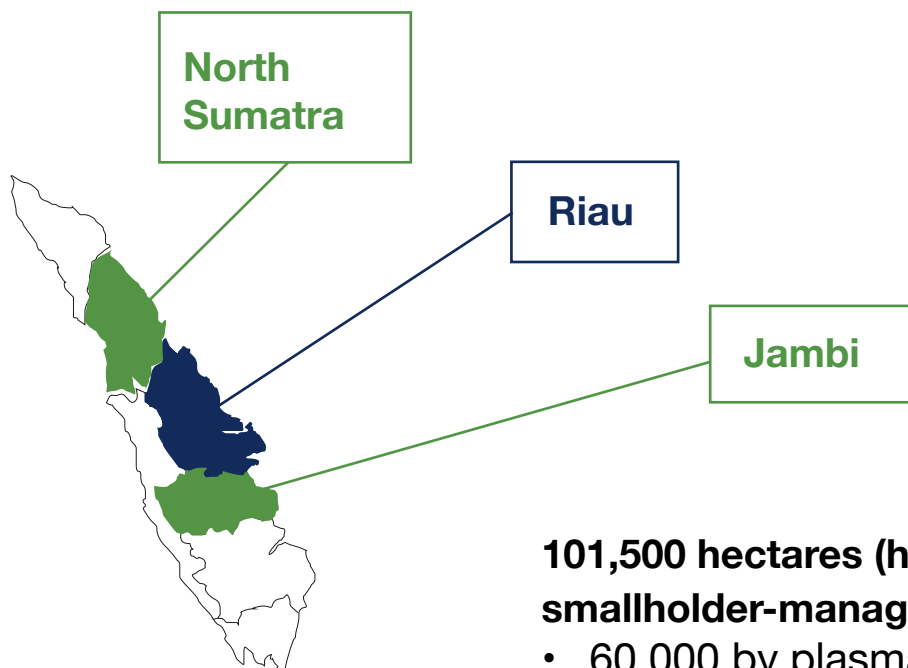


Build a strong private-public partnership to ensure government programs and funding schemes reflect realities the company and farmers face.

Read the full case study to learn more about how Asian Agri sees financial returns on their investment, and how they are aligned to principles of the [ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry](#).

LOCATION

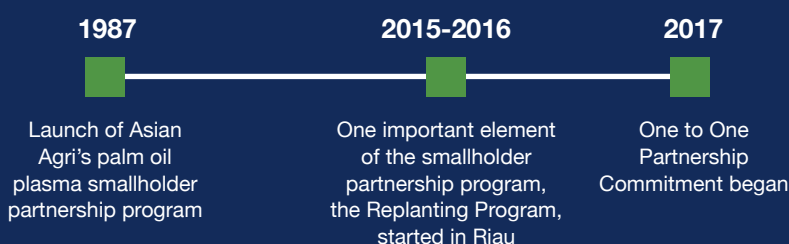
North Sumatra, Riau, and Jambi Provinces, Sumatra, Indonesia



101,500 hectares (ha) of smallholder-managed plantations:

- 60,000 by plasma¹ smallholders
- 41,500 by independent² smallholders

Timeline



Since launching the program in 1987, Asian Agri has continued to work with the local government, as well as provide technical assistance. The support also includes managing replanting of palm oil trees along with planting of other cash crops to increase farmers' income and boost national food security.

¹ Smallholder farmers whose land surrounds a company's concession (the nucleus) and who sell to that same company
² Smallholder farmers who are not linked to any particular company or mill, and manage 1/4 of Indonesia's plantations



Investor Profile

Asian Agri (legal entity 'PT Inti Indosawit Subur') is an Indonesia-based member of Royal Golden Eagle (RGE) in Singapore. Founded in 1979, Asian Agri operates in three provinces, covering 100,000 hectares of their own palm oil plantations, with 20,000 employees as of 2020.

Asian Agri manages their own plantations on concessions from the government and has offtake agreements with plasma and independent smallholder cooperatives. The company buys from smallholder farmer cooperatives in bulk, and they follow the market price as dictated by the government (Ministry of Agriculture).

The company's sustainability journey began in 2010. Asian Agri has committed to sustainable production practices on its own plantations and has been certified with the Roundtable on Sustainable Palm Oil (RSPO), Indonesia Sustainable Palm Oil (ISPO), and International Sustainability and Carbon Certification (ISCC) requirements. Asian Agri made a renewed commitment in 2016 to support both plasma and independent smallholder farmers on 60,000 and 40,000 hectares respectively, through their [One to One Partnership Commitment](#), which is the focus of this case study.



Investor

Asian Agri headquartered in Medan, Indonesia



Capital Structure

IDR 40 billion (USD 2.7 million) invested annually into all programs in the smallholder farmer partnership



Commodity / crop

Palm oil

Investment Profile

The company's annual investment into their smallholder partnership program reached IDR 40 billion (USD 2.7 million) in 2020. The investment includes the cost of human resources (~200 field staff) to support smallholder farmers with inputs, access to finance, best management and replanting practices; as well as premium sharing for RSPO-certified palm oil and cash incentives for high quality outputs to increase farmers' income.

The primary beneficiaries of the investment are smallholder farmers, both plasma and independent. The field staff help farmers identify alternative sources of income during the replanting phase. Asian Agri provides the company's own seed variety to help smallholder farmers increase their yield and ensure the quality of their harvest. Asian Agri also offers farmers at-cost use of equipment for land clearing for the replanting.

The investment is primarily comprised of the company's own capital reinvested, but it also includes partnerships with the government and third-party banks to defray the costs of replanting for both plasma and independent smallholder farmers. The Indonesian government has established a fund to defray the cost of replanting for plasma smallholders producing certified palm oil (CPO) for export.³

Half of the replanting expenses (IDR 30 million or ~USD 2,100 per hectare) comes from the government fund. Asian Agri field staff help the farmer cooperatives apply for public funds and the company acts as a guarantor for bank loans to cover the remaining funds.

Smallholders use their land titles for the loan guarantee, and Asian Agri ensures farmers can repay their loans through higher yields, via their field support. Independent smallholders form cooperatives to sell their palm oil harvest to Asian Agri, but since they are not part of the plasma program they do not receive the same CPO funds from the government, and therefore must rely on banks for the replanting loans.

³The plasma system, developed by the Indonesian government, allows companies to develop palm oil plots adjacent to their plantations, where farmers cultivate 2 hectares of palm oil and 1 hectare of cash crops each, with additional land for domesticated animals and vegetable plots.







Investment Objectives

The main objective of this investment is to ensure a strong relationship between Asian Agri and their smallholder farmers to secure the company's palm oil supply, since smallholders produce 50% of their annual volume.

There is also a strong business case for Asian Agri to support smallholder farmers to become RSPO-certified through the higher premiums paid for certified palm oil (CPO). Smallholders represent 42% of oil palm plantations in Indonesia, but are responsible for just 37% of production. Not only is their productivity lower, but their understanding of the latest environmental management best practices can be limited. In particular, independent smallholders tend not to be part of any formal organization, meaning they often lack knowledge, and access to financing and modern equipment.



Specifically, the investment objectives were to:

	<p>Support smallholders to replant their palm oil plantations, with a goal to reach 60,000 hectares replanted by 2030</p>
	<p>Provide support to smallholder farmers managing 100,000 hectares of land (One to One Partnership Commitment), including teaching best management practices that increase soil quality, promote practices that benefit the environment and mitigate climate change</p>
	<p>Achieve 100% RSPO and ISCC certification of plasma farmers' plantations on 60,000 hectares</p>
	<p>Support RSPO certification of 5,000 independent farmers' plantation by 2030 (through a separate collaborative initiative)</p>
	<p>Increase farmers' incomes through higher yield by applying sustainable practices, replanted plantations, and annual benefits through RSPO premiums</p>
	<p>Mitigate risk by supporting smallholders to increase their productivity and focus on intensification of their existing plantations</p>

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At Asian Agri, we work and subscribe to our founders' values, the 5 Cs – Community, Country, Climate, Customer (domestic or international), and Company. We continue to strive for best quality and highest productivity from land and trees to lower [economic, environmental and social] costs. ”

– Mr. Kelvin Tio, Managing Director

Investment Process

The investment into Asian Agri's smallholder farmer partnership program was catalysed by the existing partnership between Asian Agri and the Indonesian government.

Initiation stage: one key aspect of this partnership is the replanting program, started in 2015. After the Indonesian Palm Oil Plantation Fund Management Agency (BPDPKS) was launched in 2016, Asian Agri supported one of their cooperatives to receive BPDPKS's first certified palm oil fund disbursement. The partnership between Asian Agri, BPDPKS, and banks addressed farmers' replanting needs, from technical assistance and inputs to loans for the replanting period.

Community consultations: aiming to reach 30,000 households on 60,000 hectares by 2030, the company worked with their 76 partner cooperatives to identify which farmers were interested and would benefit most from replanting. Farmer consultations were conducted to understand farmers' concerns related to replanting (such as concerns about income generation while waiting for the trees to mature) with support from Non-Governmental Organizations (NGOs) such as The Sustainable Trade Initiative (IDH) and World Wildlife Fund (WWF).⁴ To help identify which farmers could benefit, Asian Agri created a traceability process to monitor farm productivity and farmers with the lowest productivity were selected to do the replanting. In partnership with the heads of the cooperatives, these farmers were registered into one group, and the company assisted the group in applying for the replanting funds from the government

and banks. Asian Agri chose to focus on younger farmers who would be primarily responsible for the continued maintenance of the replanted plantations in the future. To help farmers prepare for replanting, Asian Agri assisted the farmers in organizing their licenses, documents, government verification, and accessing the certified palm oil fund.

Challenges: the primary goal for Asian Agri in the replanting program was to help smallholder farmers follow sustainable practices. There were some challenges in communicating the long-term value of replanting. Within the cooperatives, some farmers believed they could replant better or faster without following sustainability steps. To address this challenge, the company leveraged the traceability system to understand which farmers were not participating in sustainable practices, and then brought in field staff to communicate more effectively with these farmers.

Business case: to measure the commercial impact of the investment into their smallholder farmer partnership, Asian Agri's field staff monitor productivity of each hectare managed by smallholder farmers who receive support from Asian Agri, including (but not limited to) the replanting program.

⁴Staff time from the NGOs was paid by NGOs own donors, not Asian Agri.

Investment Results

The main objective of the investment was to stabilize and improve the supply of palm oil harvest to Asian Agri, by creating the smallholder farmer partnership program. The supply has increased since the start of the investment, making this investment cash positive.

Objective	Results to date
100% match of Asian Agri's 100,000 hectares with 100,000 hectares managed by smallholder farmers	Original target was 100,000 hectares. By mid-2021, Asian Agri is supporting smallholder farmers managing 101,500 hectares.
Increase in number of hectares replanted by smallholders	From 2015-2016, the first agri-cooperative in Riau replanted 310 hectares. By 2020, 5,000 hectares were replanted. By 2030, the goal is to reach 60,000 hectares. *Given the long-life cycle of the trees (up to 4 years before production begins), the actual productivity will be measured continuously in the coming years.
100% plasma smallholder production area RSPO-certified	Achieved in 2017. Buyers can confirm that the palm oil is certified due to Asian Agri's investment into traceability technologies.
Increase in independent smallholder production area RSPO-certified	Ongoing; since this is a voluntary certification undertaken by farmers themselves, there is no target date. A partnership program (SMILE) aims to certify 5,000 independent smallholder farmers by 2030.
Increase in incomes for 30,000 smallholder farming households	Average smallholder farmer yields have increased from 15 to 23 tons per hectare per year following four years of replanting using sustainable practices. These 30,000 households' incomes can be up to 2 times higher than palm oil smallholder households that are not participating in Asian Agri's programs. Asian Agri has not yet engaged in measuring actual change in income over time for farmers.
Risk mitigation with security on 40 estates	Security challenges (due to smallholders' illegal use of company land) decreased on all estates; ongoing process.

Alignment to ASEAN RAI

The ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI) is a regionally-adopted, voluntary framework to guide investment decision making for both private and public sector actors.

ASEAN Member States have agreed to use these Guidelines to create or update legally-binding policies – which means agribusinesses and investors who demonstrate alignment to the ASEAN RAI are better prepared for these future policy changes.

The 10 principles of the ASEAN RAI (Figure 1) describe the impacts those agricultural investments may have at the community, local, or national level.

The next two pages outlines the alignment between the company's practices and the ASEAN RAI principles. When a company like Asian Agri makes a pre-investment commitment to follow responsible environmental, social and governance practices, they are more likely to be aligned to the ASEAN RAI.

This investment retroactively applies the ASEAN RAI to Asian Agri's investment practices and outcomes, which are aligned to (some aspects of) **7 out of 10 Guidelines**. If ASEAN RAI had existed before Asian Agri's investment into their smallholder partnership program, it would have helped them: evaluate and address food security and need for alternative livelihoods among smallholder farmers in the program (Guidelines 1 and 2), set up systems to measure change in impact over time (such as farmer income) (Guidelines 2 and 9), integrate specific gender-inclusive approaches (Guideline 3) and integrate additional, targeted climate-smart

Figure 1. 10 Principles of the ASEAN RAI



Alignment of Asian Agri's Investment to ASEAN RAI



Guideline 2

Sustainable, inclusive economic development and poverty eradication, including: improved producer livelihoods, fair contracts, employment and wages, worker health and safety

Smallholder farmers have had an increase in disposable income, due to increased yield of their palm oil plantations and additional profits from the sale of certified palm oil, which Asian Agri pays directly to farmers. Anecdotally, Asian Agri has seen that more smallholders are able to send their children to tertiary education, and access better healthcare.



Guideline 3

Equality, engagement and empowerment of women, indigenous communities, youth, marginalized communities

Asian Agri specifically focused on young farmers for the replanting program, given the importance of youth in maintaining sustainable palm oil production for the next life cycle of 25 years.



Guideline 5

Conservation of natural resources, especially forests

Since 1994, Asian Agri has implemented a zero burning policy. The company has focused on land intensification rather than extensification since 2003. Soil quality is also ensured through planting of cover crops. This also improves water quality and conservation efforts. Replanting also avoids farmland intensification as it occurs on existing plantations allocated for palm oil production.



Guideline 6

Sustainable and appropriate use of technologies

Traceability tools are set in place by engaging independent smallholder farmers. A mobile app aligned to the traceability program was developed in 2018, and will be launched post-pandemic. The app will be piloted with one mill and farmer suppliers, and eventually made available to all Asian Agri mills, field staff and smallholder farmers.



Guideline 7

Resilience to climate change, natural disasters and other shocks

Peatland burning is replaced by mechanical clippings that facilitated nutrient transfer to the soil from 1994 to 2003. Since 2003, the company is no longer opening new land areas for plantation.



Guideline 8

Respect for the rule of law and incorporation of inclusive and transparent Governance structures, processes and grievance mechanisms

Asian Agri works closely with government agencies, for example BPDPKS, to ensure local regulations are followed on smallholder farmer plots. The company verifies farmers' land ownership certificates with the government to ensure they are able to participate in the replanting program, and collaborates with the Ministry of Agriculture and National Land Agency at the local levels to deliver the certified palm oil program with plasma farmers. Lastly, Asian Agri has a grievance mechanism for all company stakeholders (including but not limited to smallholder farmers).



Guideline 9

Assess and address environmental and social impacts and monitor performance

Asian Agri measures the impact on income and livelihoods via the potential yield per year from the replanted hectares managed by the smallholder farmers. Environmental assessments are conducted internally by Asian Agri's Research and Development (RnD) and Operations teams.

Public policy recommendations

According to Asian Agri, replanting palm oil plantations with smallholder farmers is an essential way to ensure steady supply of palm oil to meet global demand. Yet this process takes 25 years for the trees to reach maturity, so companies and farmers need long-term commitment from the national government to support replanting programs. As plantations age, yield for farmers declines and market prices drop. This program is an essential component of reaching Indonesia's national target of replanting 200,000 hectares per year, while ensuring livelihoods for smallholder farmers and market security for Indonesia's palm oil sector.



Ensuring long-term sustainability

The company believes that the key element to sustainability of their investment into smallholder farmer partnerships is the strength of communications and understanding of farmers' needs at the field level. Without this communication, the investment would fail.

The company hopes to expand the replanting program with smallholders to North Sumatra in the near future but aims to focus on the current target of 60,000 hectares replanted in Riau and Jambi by 2030 to get the model right.

The company is now exploring ways to help agri cooperatives access the certified palm oil (CPO) funds from the government, to reduce risks for individual farmers. They aim to partner with other upstream players and agri cooperatives to work toward this goal.



Learnings for the future

Asian Agri reflects that if they were initiating the investment into the smallholder partnership program in 2021, they would start from the farmers' point of view, rather than from the company's point of view. This would have enabled them to understand the financial limitations for farmers to replant their land sustainably (and wait for the income generated from certified palm oil). Farmers' income from palm oil is not guaranteed during the replanting phase, so investors like Asian Agri must support them to identify other income-generating activities. The certified palm oil government funds can help alleviate some financial challenges, but farmers may have additional challenges (such as outstanding loans) that prevent them from accessing the funds.



Asian Agri's main learnings

- Help manage risk: plasma and independent smallholder farmers face financial risks when they enter into sustainable production practices, and investors should consider alternative livelihood options that incentivize farmers to stay committed.
- Shared responsibility for shared revenue: investors must ensure market demand exists for sustainably certified products before engaging with smallholders on certification schemes, to ensure farmers will receive the premium sharing.
- Technology can help do more with less: investors should focus on intensification of production for higher yield (and income), not "extensification" that requires more land.
- Private-public-producer communications: investors can play a key role acting as a conduit between farmers and the government, to share what is, and is not, working at the field level.

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Encouraging more farmers to go into replanting is an essential element of our business strategy, so we must understand what farmers need to succeed. ”

– Mr. Kelvin Tio, Managing Director

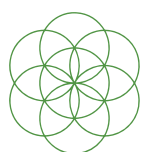
References

[BPDPKS and Asian Agri Fund Replanting Program of Smallholders](#)

[Managing Sustainable Oil Palm Plantations](#)

[Asian Agri's One to One Smallholder Commitment](#)

[Asian Agri's vCommitment to Climate Stewardship a Sustainable Tomorrow for Future Generations](#)



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