

Opportunities for Increasing Productivity and Profitability of Oil Palm Smallholder Farmers in Central Kalimantan

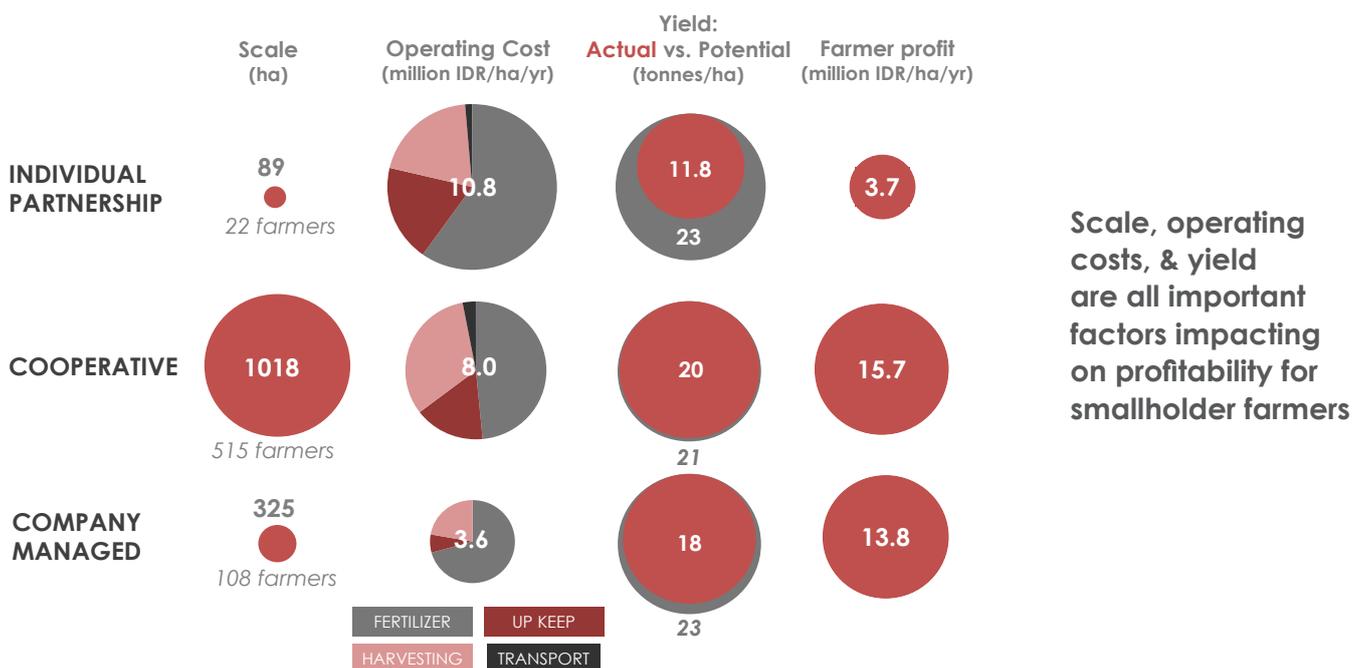
The Governments of Indonesia and Central Kalimantan have ambitious targets to both grow the palm oil sector and improve environmental quality by reducing deforestation. To achieve these dual economic and environmental goals, increasing productivity throughout the oil palm value chain and ensuring plantations are located on suitable lands will be essential.

Smallholder farmers are an important part of the picture. In Central Kalimantan, they currently manage an estimated 15% of the planted palm oil area. However, the plantation area managed by smallholder farmers is expected to expand rapidly between now and 2020.

Key Findings:

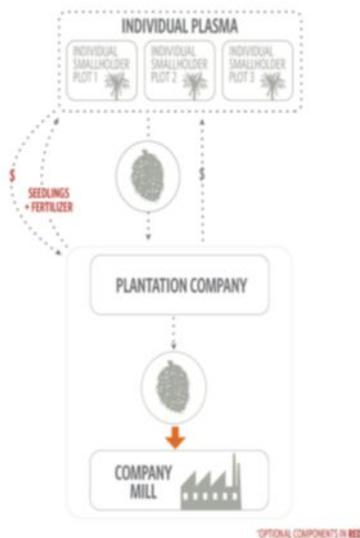
Smallholder farmers have a variety of different industrial organisation models, which impact their productivity, profitability, and risk exposure. A recent PILAR study found that there are **opportunities to improve productivity and farmer benefits within the main smallholder farmer models in Central Kalimantan.**

Overall, the study findings provide a **strong case for larger scale, more integrated smallholder farmer plantation management.** Both the cooperative and company-managed plasma models contribute to better performance in terms of yields and profitability per hectare. Both models allow for better planning and more efficient management, while also mutualizing risks among a larger pool of members.

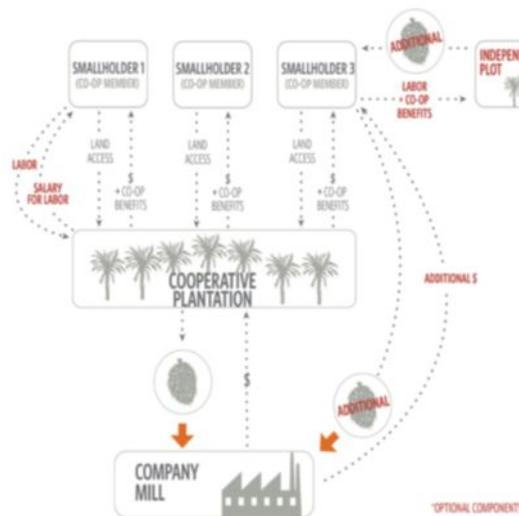


Each of the smallholder farmer models have advantages and disadvantages. All models also have opportunities to be enhanced to deliver greater benefits for farmers and improved integration into the oil palm value chain.

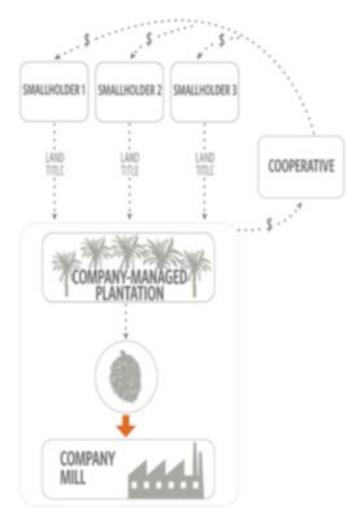
Individual Partnership Scheme



Cooperative Scheme



Company-Managed Scheme



The cooperative plasma model is highly successful in managing both production and market risks.

It reaches the highest yields in the survey sample, at 95% of yield potential. The ability to spread risks across cooperative members is an important advantage. The cooperative model tends to be more advantageous to smallholder farmers, as it provides a greater array of benefits and they retain greater control over the plantation. However, field interviews suggest that cooperatives can be challenging to establish. **Key barriers** such as institutional weaknesses, lack of financial transparency and budget accountability **need to be addressed to enable the development of successful cooperative models.**

The company-managed plasma model also produces high yields.

For the company-managed model, high yields combined with efficient operating cost management contributed to strong profitability per hectare. **However, this model does not tend to deliver the same benefits or empowerment of local farmers and communities.**

There is most **scope to improve productivity and profitability for the individual partnership model**, which is only achieving 52% of its potential yield and the lowest profits for farmers of the models sampled.

Our study also **highlights the high exposure of independent smallholder farmers to a wide range of legal, supply, production and market risks.**

In follow up to this study, PILAR plans to develop a toolkit to support smallholder farmers and companies to select and implement the most suitable model of organisation and value chain integration. Additionally, PILAR is planning to undertake a series of case study analyses to better understand features of a successful cooperative.