



PISAgro NEWS

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WORKING WITH SMALLHOLDERS

Doing Business with Smallholder Farmers:
Challenges and Opportunity



Scaling Up Financial Services in Rural Areas

Working with Smallholder Female Farmers in
Improving their Access to Agriculture Information
and Financial Services

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Dear readers,

2014 is the International Year of Family Farming. Family farming and smallholder farming have all the rights to be highlighted and celebrated as they have a significant role in eradicating hunger and poverty, providing food security and improving livelihoods in particular in rural areas. That's why PISAgro NEWS this edition chose "Working with the Smallholders" as its theme.

Many companies are eager to work with the smallholders as it brings some benefits to them. However, there are some risks accompanying it. Find the article on the benefit and the risk of working with smallholders in the headline page 2 and best practice page 5.

What's so special about this edition is the interview section in page 7, we capture the voice of smallholder farmers in palm oil and rice. We believe to make a fundamental change for smallholder farmers, it is vital that their voice is heard.

Whats different about this edition is we have an agri-finance column. Check it out in page 9.

Last but not least, we are happy to announce PISAgro's new members: IFC, Cargill, East West Seed and DFAT. Find out about their plans on joining PISAgro in the welcome new members, page 20.

*Let's start the year with a new spirit
and enjoy the reading!*

The Editor

Working with Smallholders

In the 2013 Indonesian Agricultural Census result, Central Bureau of Statistics (BPS) reported the decline in the number of family farmers by 5.1 million in the past 10 years. It means Indonesia has lost 500,000 farmers per year.

Suswono, Minister of Agriculture admitted this. “Due to the land conversion, ideally, workers in the agricultural sector especially on-farm had to be declined. If not, it will only add to new poverty,” he told Reuters on Friday 8 November 2013. Currently, there has been an unstoppable agricultural land conversion, which reaches 100,000 ha/year. While development of new rice fields is only 40,000ha/year.

On the other side, Indonesian population growth and middle class’ rising income have created an increase in demand for food. To satisfy this demand, companies are increasingly relying on working with smallholder farms to secure a sustainable supply.

More and more companies have now made sustainability commitments that implicate smallholder value chains. On 20 February 2014, in IFAD’s Governing Council 2014 in Rome, Paul Polman the CEO of Unilever said: “Our goal is to engage with at least 500,000 smallholder farmers in our supply network by 2020. We will help them improve their agricultural practices and thus enable them to become more competitive. By doing so we will improve the quality of their livelihoods.”

Sourcing directly from smallholders actually not only brings benefit to farmers but also brings many benefits to companies, such as expanding a firm’s supply base, reducing margins paid to collectors and middlemen, and facilitating quality

and productivity improvements. Smallholders also represent a potential customer base for firms marketing inputs, information, and financial services. Furthermore, working with smallholder can response to consumer preferences for ethical and sustainable sourcing, traceability, and food safety.

Responding to the need of developing a competitive, fair, transparent and traceable supply chain all the way from farmers to processor, Nestlé and BT Cocoa from Cocoa Working Group of PISAgro has developed 2 traceable beans collection centers in Mamuju, West Sulawesi. For the traceability purpose, they develop training programs for farmers, facilitate the fermentation and provide the equipments. Wisman Djaja, Director of Sustainability of Nestle Indonesia, the leader of PISAgro’s Cocoa Working Group said: “We have successfully shipped the first traceable beans supply from farmers in Mamuju to BT Cocoa’s factory in Tangerang last September 2013”.

As smallholder farmers present a compelling opportunity for buyers,

BUYER MOTIVES FOR SUSTAINABLE SOURCING

	Defensive Play	Sustainability Branding	Protecting and Building the Core Business
Drivers	CSR, License to Operate	Consumer Demand, Branding and Sustainability Culture	Sourcing Needs, Diversification Value Chain Traceability
Description	Buyers are under pressure from external players to create a more sustainable value chain (i.e., external risk management)	Buyers have sustainability tied to their mission or culture. Some may see a premium profit opportunities through sustainability branding	Buyers are concerned about productivity, quality, supply security, food safety and producer loyalty (i.e., internal risk management)
Core Sustainability Issues	<ul style="list-style-type: none">• Land conversion (i.e., deforestation)• Labor rights	<ul style="list-style-type: none">• Fair treatment of farmers• Land and water usage*	<ul style="list-style-type: none">• Smallholder engagement• Eco-efficiency (i.e., farm productivity)

Source: Catalysing Smallholder Agricultural Finance, Dalberg, September 2012

lenders, and other actors in the agricultural value chain, they are now occupying an increasingly important role in the food market.

However, tapping the smallholder opportunity will require the firms to address many obstacles, such as low volumes of produce to sell, variable quality, seasonality and limited storage, high transactions costs, limited ability to meet the high

quality requirements of industry, lack of aggregation. Responding to these challenges can require costly investments with returns spread over the short and long term.

Despite all of the risks and challenges, more and more private companies are embracing the model of working with smallholder farmer. On pilot project scale, the model is proven to be able to bring benefit to companies in the form of

better quality and productivity of the produce and most of all, it brings improvement in the income for farmers.

Scaling up the model is the most challenging one, as it will need a bigger role that needs to be taken by the government and other public sector in speeding up the agricultural research and development, better spatial planning, policy coordination

The Benefits of Working with Smallholder Farmers

	Short-term benefits	Medium-term benefits	Long-term benefits
Input manufacturers and suppliers	Increased sales	More efficient distribution through groups	Markets for new products designed for smallholders
Financial institutions	Large numbers of potential customers	Development of outgrower arrangements to facilitate repayment	<ul style="list-style-type: none">• Market for new financial products• Loyalty among emerging mediumscales farmers
Agricultural information and training providers	Large numbers of potential customers, who can be reached via ICTs at low cost	Partnerships with off-takers or input suppliers who may pay for services	Information needed to develop products and services
Off-takers and processors	<ul style="list-style-type: none">• Greater production from the same area• Better quality• More efficient logistics	<ul style="list-style-type: none">• Traceability• Certification• Reduced environmental social risk	<ul style="list-style-type: none">• Stability of supply• Increased supplier loyalty

Source: “Working with Smallholders: A Handbook for Firms Building Sustainable Supply Chains”, International Finance Corporation July 2013

among the government institutions, infrastructure development, co-funding for public goods and services, such as provision of farmers training and extension workers, effective program coordination that includes linking the partnership with all of the potential resources and government programs and effective coordination between central, provincial and district government.

When all the stakeholders, public and private work together, Indonesia will be able to achieve its target of increasing the food security in a sustainable way while maintaining economic growth at the same time.

The Challenges of Working with the Smallholders

Traditional cultivation methods. Farmers learn agricultural techniques from their parents rather than external sources.

Poor soil fertility and limited water resources. Many smallholders do not know how to improve their soil fertility because they lack an understanding of soil systems and have inadequate soil testing services

Changing weather patterns. Unpredictable rainy seasons reduce farmers' confidence in planting crops at the traditional time. Traditional varieties may produce low yields or fail altogether during drought or flooding. Changes in temperature and humidity increase the prevalence of pests and diseases.

Limited access to markets. Distance, poor roads, and access to vehicles for crop transport, cause physical isolation. Small quantities of crop to sell, a need for immediate payment, no capacity to safely store crops, and limited knowledge of prices and quality requirements beyond the farm gate.

Largely unorganized. Only a small number of farmers are members of agricultural cooperatives, which can improve market access through collective ownership of trucks and storage facilities. Many of the active cooperatives that do exist have low capacity

Informal landholding. Property is often allocated by tradition and culture. The vast majority of smallholders do not have formal title to the land they farm. Lack of formal land tenure makes it difficult for smallholders to use their land as collateral for financing.

An aging population and low literacy and numeracy. Farming has lost its appeal among the young generation. Many smallholders have little formal education, which limits their ability to keep adequate written records or educate themselves about improved agricultural practices.

best practice

Doing Business with Smallholder Farmers: Challenges and Opportunity

Every investment carries a risk that the costs will outweigh the expected benefits. For agribusinesses, shifts in commodity prices and changes in weather patterns bring additional risk to investments aimed at improving supply. Working with smallholder farmers can also be a risk for firms.

It is important to note that smallholder farmers are not a uniform group with a single risk profile. From region to region, and even within a single country, smallholder farmers and farms vary significantly in terms of capability and capacity, creating varying degrees of risk. Segmenting smallholders to evaluate risks and design engagement strategies is a best practice. Generally, however, firms face the following risks when working with smallholders:

1. Side-Selling

One of the greatest risks for off-takers is failing to recuperate the cost of their investment because farmers divert some or most of their increased productivity to other buyers, known as side-selling. The structure of the supply chain greatly affects the risk of side-selling. Risk is reduced in a "tight" supply chain where there are relatively few buyers and a high degree of supplier loyalty. In a "loose" supply chain, where many buyers exist and suppliers are fickle, investment is riskier because farmers are more likely to side-sell. The risk of side-selling also increases when farmers live on subsistence incomes or rent their land. When the threat of poverty is high, farmers cannot afford to consider the long-term benefits of building a relationship with a firm. Instead, their income strategy is to sell to the highest bidder.

Mitigating Strategy:

1. Perform field surveys during the production cycle to estimate harvests so that side-selling can be detected. Schedule rapid pick-up of harvested crops, settlement of loans, and payment. Provide empty grain bags to speed marketing and reduce side-selling.
2. Increase farmers loyalty through effective training and communication for changing smallholder behavior, implementing standard and certification for compliance and possible premium price, developing partnership model between off-takers, input suppliers, and financial institutions.

2. Farmers Fail to Adopt New Practices

Farmers don't adopt improved agricultural practices despite investments by the firm aimed at helping them do so. Non-adoption may occur when farmers are not sufficiently convinced that new practices will benefit them or when they cannot afford the new practices. Lack of access to financing and high interest rates can also contribute to the perceived high price tag of improved practices.

Mitigating Strategy: Assessing Smallholder Constraints

Understanding smallholders' constraints when presented with new techniques can help firms design interventions that increase the likelihood of success.

LACK OF EDUCATION

Mitigating Strategy:

Adapting training to participants' educational levels can increase their ability to capture and retain knowledge.

LACK OF INFORMATION

Mitigating Strategy:

In-depth market research carried out before program design and implementation will help firms identify farmers' information gaps and respond to their needs.

LACK OF ACCESS TO HIGH-QUALITY INPUTS

Mitigating Strategy:

Outgrower schemes and other models for channeling inputs to farmers can help smallholders gain access to quality inputs.

LACK OF FARM RECORDS AND COLLATERAL

Mitigating Strategy:

Include a farm management component, such as recordkeeping, within a larger training package.

LACK OF LABOR

Mitigating Strategy:

A careful evaluation of increased requirements on farmers' time can identify potential labor shortages before they arise. Firms might discuss the time demands with farmers to identify potential solutions

including community labor-sharing groups or shifts in household responsibilities.

RISK AVERSION

Mitigating Strategy:

Encourage farmers to adopt new strategies on a portion of their land so they can experience the practices' efficacy before expanding to their entire plot. Facilitating access to loans and crop insurance can also help ensure that farmers have a financial safety net in case crops fail.

NEGATIVE ATTITUDES TOWARD SUCCESS

Mitigating Strategy:

Careful partnerships with farmer leaders during implementation can highlight negative community reactions that might emerge as a result of program implementation.

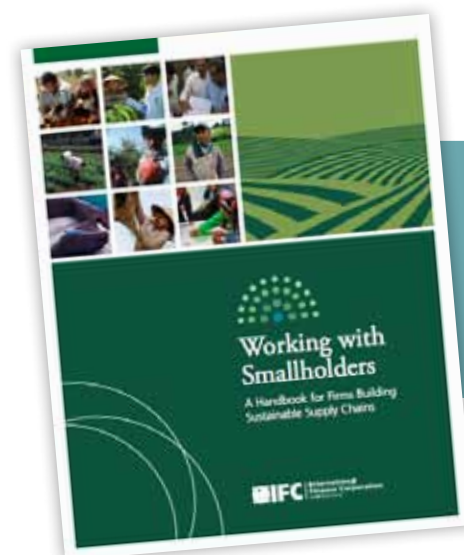
3. Adoption Is Unsustainable for Farmers

Related to the risk of non-adoption is the risk that the improved agricultural practices are not sustainable for smallholder farmers. While farmers initially may be enthusiastic about new practices, they ultimately may decide that practices aimed at

increasing productivity are not cost-effective options for their businesses. For example, smallholders will reduce or stop using fertilizer if the required product and labor costs are higher than the income generated by the increased output.

Mitigating Strategy:

1. Effective training and communication for changing smallholder behavior, implementing standard and certification for compliance
2. Expanding smallholders' use of inputs to increase quality and productivity and lower costs. Partnerships between off-takers, input suppliers, and financial institutions can address the barriers to input of adoption
3. Aggregating smallholder farmers into groups for building efficient supply chains.
4. Improve farm management skills or train smallholders to run their farms as businesses will establishes the foundation for improved agricultural practices in the field.
5. Increasing the participation of women in supply chains as supply chains in which both women and men participate tend to see stronger growth than those in which women have low participation.



For a more comprehensive explanation on working with smallholders, please have a look at: "Working with Smallholders: A Handbook for Firms Building Sustainable Supply Chains", which can be downloaded free at: www.ifc.org

interview

Through the farmers' own voices and the realities of their lives.



Mansuetus Darto

National Coordinator of Indonesia's Oil Palm Smallholders Union (SPKS)

How much is the productivity of smallholder farmers compared to the private companies?

The productivity of our member in average is 12ton Fresh Fruit Bunch (FFB)/ha/year. The big companies in average produces 19tons/ha/year. While Malaysian production reaches 29tons/year. Government of Indonesia itself sets a target of 36tons FFB/ha/year.

What limits you from increasing the productivity?

Mainly it's the lacking of capital and knowledge and poor infrastructure. The lack of capital has made farmers to buy bad seeds. Moreover, it has made the smallholder not planting their plantations with sufficient trees. Ideally 1 hectare of land should be planted with 128 trees, but many smallholder farmers only capable of planting 80-98 palm trees. Poor knowledge and capital have made farmers under fertilizing the plantation. Bad road not only makes the access to purchase

inputs difficult but also deter farmers to harvest the fruits on time. Lots of fruits are left to rot on the trees and in the fields, because there are no trucks coming into the area. Poor access to markets also makes farmers sell their fruits to collectors and get lower price than the market price. Usually the collectors buy Rp250/kg lower than the market price.

What's the best solution for independent smallholder farmers?

The independent small holders at least need 3 immediate interventions. First is to clarify land ownership and its legality. Most of farmers' land has not been legalized with land certificate. Farmers usually hold acknowledgment letter from the head of village, we called it SKT. Farmers who hold land certificate are very rare. With this condition, farmers would not be able to access formal financing institution and meet certification criteria. Second is how to improve the plantation's productivity that includes technical assistance in training on good agriculture practice. Third is how to empower farmers and involve them in oil palm value addition process. Farmers do not have certainty in selling FFB as the price will immediately fall if not immediately processed into palm

oil as a result of poor infrastructure from site to mills. In this regards, farmer groups can actually be empowered to operate small scale mills on farm site to increase the value added of FFB as well as reducing quality risks. Government's Agency for the Assessment and Application of Technology (BPPT) has actually developed mini-mills with the capacity of processing 5-10 tons fruits per hour that needs fruits supply from group of farmers with a total land area of 1,000 to 2,000 ha. Therefore, it would be advantageous if the smallholders can have their own mills. BPPT has developed palm oil mills with capacity of 5 tons FFB per hour in Kampar district and Bengkalis, Riau.

What's your plan for the future?

SPKS will continue to encourage best agriculture practice for smallholder oil palm growers and to bring FAIR cooperation scheme on the table. FAIR stands from Freedom of choice, Accountability, Improvement, Respect for rights. We hope this scheme will bring a new approach as a breakthrough to change the face of Indonesia's palm oil sector from being seen as exploitative to have better image with smallholder empowerment approach.



Titin Maryatin

Rice Farmer and Chairwoman of Maju Bersama Women Farmers Group from Sidodadi Village, Indramayu, West Java.

What are the benefits of joining the group?

While waiting for the rice-harvesting season, members of the group engage in income generating activities, as additional income for the family.

In 2012, on the side of rice farming, we tried duck farming to produce homemade salted eggs. We collected 50 thousand rupiahs from each member and bought 50 ducks. But, unfortunately, not long after that bird flu attacked and killed all of our ducks. In the group, we save 10,000 rupiahs per month. Any member who needs cash could borrow from the group and pay back the loan over a set period of time. We manage this sort of credit union activities.

What are the challenges?

The challenge is on strengthening our capital. But, more than anything it's the access to information. We need capital support and information technology. If we have enough capital and rich information, we can do many things. Our ideas is unlimited, we can develop rice storage house in the village, restart the duck farming business, or produce handicrafts. All we need is assistance, more information and skills development so we can realize our ideas, knowing how to do it.

What do you plan for the future?

We're currently proposing 60 million rupiahs loan to the provincial agriculture office. We plan to use this to revive our dreams and start over the duck farming again. Despite the bird flu, which killed all of our ducks in 2012, we didn't give up. We plan to start another duck farming after the rice harvesting season, this coming April. We will produce homemade salted eggs and sell them. I am very optimistic that the activities that we do in the farmers group will contribute to the change of the mindset of women farmers and help them to become more independent.

Maju Bersama Women Farmers Group chaired by Titin Maryatin works in partnership with PISAgro's Rice Working Group.

How did you set up the all-women farmers group?

There are a total of 900 hectares of paddy fields in our village, managed by 9 farmers group. The idea of forming a women farmers group actually first came in 2011 from the Extension Service Worker in our village. At that time, we heard that the neighboring village, Sumber Mulya has a successful women farmers group. We thought why don't we have one women farmers group in our village that will give benefit to us? If our neighboring village could do it, we could too. So, we decided to form one in March 2011. We named it Maju Bersama Women Farmers Group and I was trusted to chair the group. Now, altogether there are 10 farmers group in our village, one of which is a women farmers group. The women farmers group consists of 20 women farmers, most of whom are rice farmers.

agri-finance column

Scaling Up Financial Services in Rural Areas

Providing financial services to the agricultural sector is the final frontier in development finance. Banks have tried numerous times to engage with the agricultural sector in the past and have faced many challenges. On one side, agricultural risks and increasingly frequent weather events like flooding or droughts increase credit risk. Difficult access to markets and crop price volatility also are negative risk factors, deterring banks to engage with the sector. On the other hand, flawed government policies like portfolio quotas for the agricultural sector or low interest rates ceilings, have prevented banks engage with the sector effectively and manage agricultural risks in an integral manner.

Today the agricultural sector is growing strongly in many parts of the world, and is facing pressures to produce more and better quality food with the same resources. Strong global demand is pushing up food prices, impacting farmers and rural communities positively and creating the need for funds to invest in new technologies, fixed assets and working capital to meet this growing demand.

Developing Supportive Legal and Regulatory Framework

Coordination among government entities and the private sector (Ministry of Agriculture, Ministry of finance, Central Bank, and commercial banks) is necessary to design the right set of policies and incentives to support the development of the rural sector. Commercial banks should target the

more dynamic and entrepreneurial farmer segments with commercial loans and other financial products, while government banks and programs could focus on the smaller and subsistence farmers, providing training and access to finance. Interest ceilings and portfolio quotas should not be part of government policies targeting the more dynamic segments, but rather governments should provide positive incentives for banks to adopt best practices in managing agricultural risks and become more knowledgeable on the rural sector. Effective and responsive credit services depend on well-functioning judiciary systems that provide objective and timely decisions with minimal political interference. Legal enforcement of contracts rights for creditors, farmers, and SMEs is important to facilitate finance to all market participants. Secure land tenure will also facilitate financing flows to the sector.

Strengthening Financial Infrastructure

Support to extend credit bureaus, as well as other forms of identification and credit reporting in rural areas, will allow growth in lending to the sector. Improved collateral registries for movable collateral, and the development of alternative forms of collateral, are particularly important to increase lending in the agricultural sector. There are important constraints to invest in fixed assets and new technologies to improve yields. Movables collateral registries will enable farmers to pledge such assets as collateral with lenders, facilitating medium and

long term financing. Finally, a broad variety of players from banks to finance companies, MFIs, insurance companies and cooperatives should provide a range of products to the different segments in rural areas; mobile banking could also facilitate payment systems, reducing costs dramatically in rural areas.

Building Capacity of Financial Institutions and their Clients

Banks and financial institutions require support in training, market research and product development in rural areas. Risk management techniques and marketing strategies are also important elements that will help banks operate better in rural areas. Building strategic alliances with value chain players and banks will help banks reduce costs and mitigate risks. Finally, strengthening farmers and farmer-based organizations in order to facilitate access to finance and improve efficiency of the value chain is critical. Training in basic farm economics, financial literacy, governance and business management will promote the development of economically-oriented farmer associations and cooperatives.

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Hans Dellien,
Agrifinance Specialist IFC

Working with Smallholder Female Farmers in Improving their Access to Agriculture Information and Financial Services



Members of Sri Rejeki Women Farmers Group in the Subdistrict of Cilamaya, Karawang Regency, West Java

More than half of all workers in the agriculture sector are female.

They are involved in almost all of the stages in the planting cycle, from pre-planting preparation to post-harvest processing. However, female farmers still have limited access to information services from outside their immediate environment. Yet, they hold a strategic position as usually, they are the managers of their family's finances. Empowering smallholder female farmers with training on agricultural information services, financial management, and financial services through mobile phones will help female farmers boost their farms' productivity and their families' incomes.

Mercy Corps, member of PISAgro offers an innovative service called Agri-Fin Mobile program to provide low-income farmers with "bundled" support which integrates financial

services, market information and agricultural services to boost their harvests.

Challenges in Working with Female Farmers

Female farmers have limited access to agricultural education and extension services. To date, agricultural education and extension services are attended mainly by male farmers, and the majority of existing farmers' institutions are ones with male farmers as members. Generally, agricultural education and socialization activities are conducted far from where female farmers live, and because female farmers are also responsible for domestic household affairs, it is mostly the men who attend such activities.

Research by the Agri-Fin Mobile Program in 2012 shows that female farmers urgently need information on Good Agriculture Practices, management of family finances, and information on non-agricultural businesses that can help improve the financial conditions and asset ownership of their families in the future. However, because female



TOP: Women Farmers Training session
BOTTOM: Discussion during Women Farmers Training session

farmers tend to have relatively lower levels of education and of self-confidence, and because of their limited access to information on financial products and services, their access to the products and services of formal financial service institutions remains low.

Knowledge and Capacity Building for Female Farmers

In 2013, the Agri-Fin Mobile Program conducted a Gender Assessment. The result of the assessment shows there are three types of female



Women Farmers Training session

farmers in Indonesia, and each category has different access to services and information.

Category 1:

Landowners who do not work on their land, but hire other workers;

Category 2:

Landowners who work on their land;

Category 3:

Hired workers who do not own land or landless laborers. Majority of female farmers in Indonesia are landowners who work on their land. Further, the assessment also shows around 50% in this group own hand phones. Therefore, it is necessary to design a training program that combines face-to-face training conducted close to their houses and the use of mobile phones.

The training program on agriculture best practices will be even more useful when combined with training on family financial management. This way, female farmers are

equipped to be better farmers who understand about the importance of savings and proper management of family finances. It is expected, this knowledge will give a positive impact in increasing the families' assets.

Working to Involve the Stakeholders

In 2014, the Agri-Fin Mobile Program plans to conduct training for 10,000 female farmers in the Districts of Bogor, Subang, Karawang, and Indramayu in West Java Province.

In carrying out this training, the Agri-Fin Mobile Program will work together with the Indonesian Government's Agricultural Extension Offices at the District and Sub-district levels and Female Farmer Groups (FFGs). The Agri-Fin Mobile Program provide master trainers and training modules both for the trainers and the female farmers. The Government Agricultural Extension Offices provide the candidate trainers to be trained by the master trainers through ToT. The target participants of the ToT are 70 persons, comprising both female agricultural extension personnel and heads of FFGs. The objective of this training is to equip the candidate trainers to be ready to provide training to the female farmers.

The training materials include agricultural information services (LISA), using mobile agriculture information platform that was

developed by 8 villages, family financial management, and products and services of financial institutions, including a payment system service using AndaraLink platform that was developed by Bank Andara. After the ToT, each trainer will prepare a training plan at the FFG level.

After taking the training, female farmers can then join the agricultural information service community. By joining the community, female farmers can enjoy daily tips on Good Agriculture Practices and enables them to interactively submit questions to experts and retrieve comment on the experts' responses. This service can be accessed free of charge by hand phone and does not require internet access.

It is hoped with good knowledge on family financial management, the female farmers will be able to prepare family financial plans and create a priority scale for expenditures, so that they can save in a regular, disciplined and planned way in order to meet their future needs.



Andi Ikhwan,

Indonesia Program Coordinator
Agri-Fin Mobile, Mercy Corps.

1 | The Palm Oil Replanting Investment Cost has been Agreed

Palm Oil Working Group under Sinarmas leadership has reached an agreement on the replanting investment cost with Ministry of Agriculture, Bank Mandiri, The Indonesian Chamber of Commerce & Industry (Kadin), and farmers' cooperatives on January 20, 2014.



Meeting on the replanting investment cost

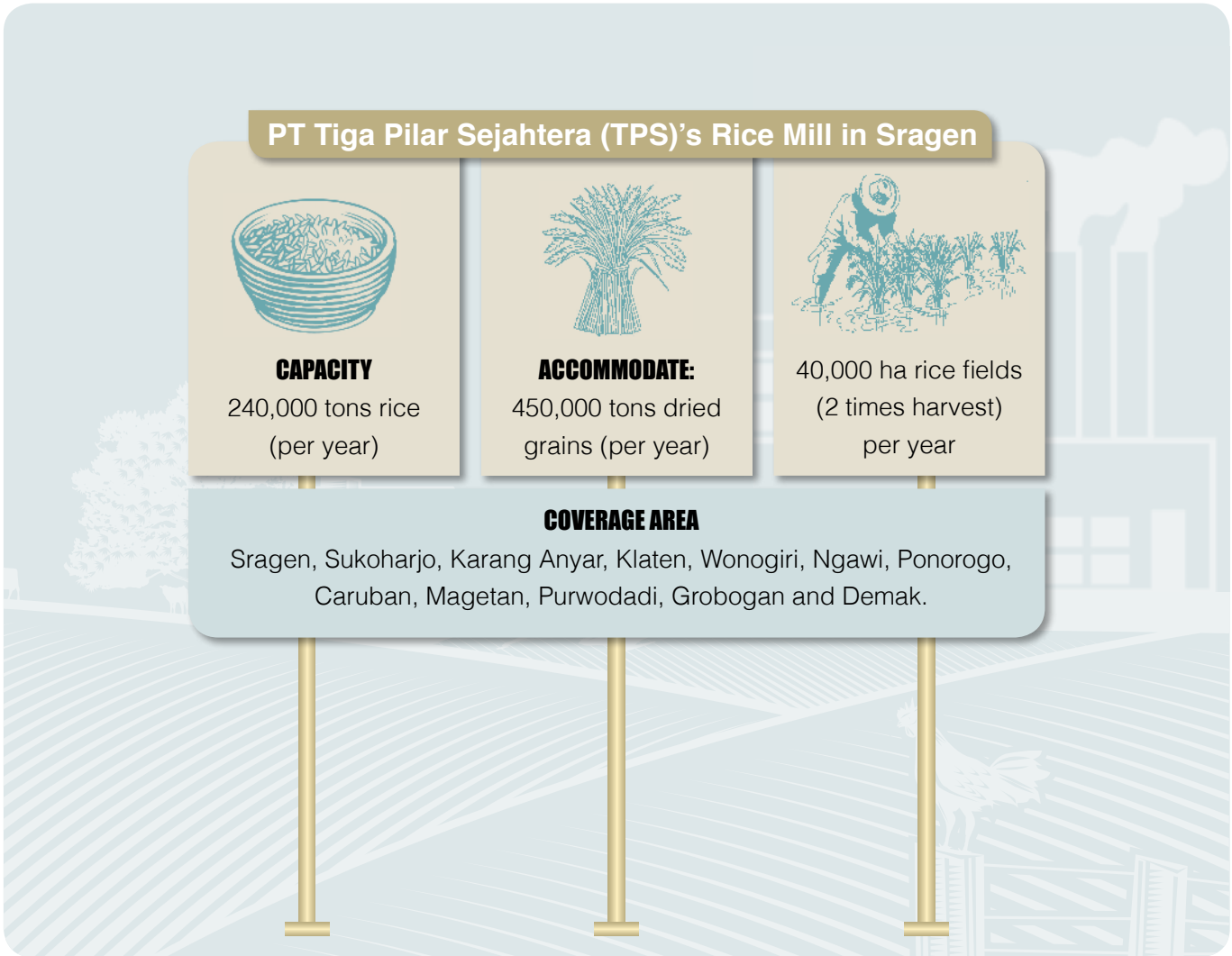


Meeting on the replanting investment cost

The budget proposal of the replanting cost is now awaiting the approval from Ministry of Finance before it can be fully implemented.

Smallholder farmers, owning around 40% of palm oil area in Indonesia, are saddled with low productivity due to aging trees. Palm Oil Working Group introduces an innovative financing scheme aims at helping smallholder farmers for replanting. The model features the inclusion of farmers' living expenses during the period of replanting in the cost component with interest subsidy from the government through APBN-P (National Government Annual Budget Modification). This financing model hopefully would be able to be used as a reference by other crops.

2 | PT Tiga Pilar Sejahtera will Inaugurate New Rice Mill in Central Java



Good news for the farmers in Central Java. They will be able to access a large rice mill easier to get a chance of higher income. In a bid to grow and further spread the wings, PT Tiga Pilar Sejahtera (TPS), member of PISAgro will inaugurate its new rice mill in Sragen, Central Java. The location of the new facility provides PT TPS better access to major rice producers in Central Java. With the capacity of 240,000 tons rice per year, the mill can accommodate 450,000 tons dried grains per year. It is equivalent to 40,000ha rice fields with 2 times harvest a year.

The coverage area of the mill is Sragen, Sukoharjo, Karang Anyar, Klaten, Wonogiri, Ngawi, Ponorogo, Caruban, Magetan, Purwodadi, Grobogan and Demak. The first phase of the mill will be inaugurated on 24 March 2014, gradually it will be on full commercial operation. PT TPS is partnering with PT Bayer Indonesia in PISAgro's Rice Working Group. Together, they work on 5,000ha area this year, with a target to produce 25,500 tons.

3 | Women Farmers Group Joined PISAgro's Rice Working Group Project

On 17 January 2014, the Rice Working Group of PISAgro signed a Memorandum of Understanding with 450 farmers from 4 farmers groups in Indramayu to grow rice on a 405 ha of land.

Farmers during rice mill tour



PISAgro's Rice Working Group with farmers in Indramayu during the MoU signing

One of the groups, Maju Bersama is a women farmers group with 20 female farmers as member. Following to the MoU, on 23 January 2014, the group held training for farmers in PT Tiga Pilar Sejahtera's rice mill. Thirty farmers from Indramayu and Subang participated in the training, which began with a rice mill tour. Farmers were introduced to the rice mill technology and capacity.

PT Tiga Pilar Sejahtera trained the farmers on post-harvest handlings, quality requirements, off-take procedures, inspection, and payment mechanism. While PT Bayer Indonesia trained the farmers on good farming practice, pests and diseases management, also harvest handling. In 2014, PISAgro's Rice Working Group plans to work with 4,952 farmers in 5,000 ha of land in West and Central Java.

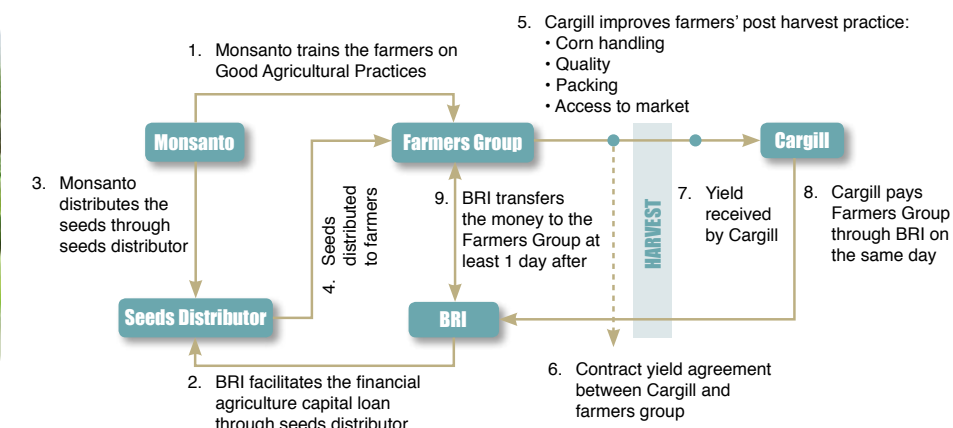
Farmers Training session



Discussion with farmers prior to MoU signing



4 | The First Integrated Corn Supply Chain Model will be Tested in East Java this Year



PISAgro Corn WG selected East Java Province as the location to develop the first pilot project of integrated supply chain partnership among Farmer Group Unions (Gapoktan), Bank and members of PISAgro's Corn Working Group. The partnership among Monsanto, BRI and Cargill will be conducted in Gedangan Village, Mojokerto District, with 50 farmers under Ngudi Makmur Farmer Groups Union which covers 163ha of land. The farms productivity is targeted to achieve 8tons/ha. Monsanto provides on-farm training, BRI facilitates farmers' agricultural input loan, Cargill provides post-harvest

training and off-takes the produces that meet the quality standard. In this partnership, Monsanto plays a significant role in selecting the area and the farmers group. Cargill will make an agreement with the farmers group, agreeing on total yield to be purchased on Cargill's specification and quality requirement. Before that, Cargil will train the farmers on the aspects of post- harvest and production, goods receivable, quantity and quality checking. The finance process between Cargill and BRI will be shortened so farmers will be able to access the payment as soon as possible. The pilot is expected to commence end of March 2014.

Meanwhile, Monsanto Indonesia in collaboration with local agricultural service supports farmers in East Lampung to increase the productivity and quality of corn through the establishment of DeKalb Learning Center (DKLC). Majority of farmers in Lampung is still growing conventional or non-hybrid seeds, which results in low productivity. Kaslan, Chairman of the Progressive Farmers and Fishermen Association

(KTNA) in Lampung said DKLC helps farmers in increasing their income by 30-40 percent. In Aceh, PT Syngenta Indonesia, organized corn expo at Horticulture Seeds Center, in Saree Village, Aceh Besar on January 28, 2014. Over 350 participants attended the event. Through the expo, Syngenta educates corn growers to increase their productivity by applying the "start right" concept. Corn is an easy plant to grow, but to get a high number of yields of more than the average national production, the growers should learn the right technique of planting. Today, Aceh has 43,675 ha of cornfield. The number is predicted to increase, as there are still some areas, which are under utilized during the dry season.



Director Corporate Affairs Monsanto Ir. Herry Kristanto, President Director Mauricio F Amore, Head of East Lampung Regency on the launching of Monsanto's Water Hygiene and Sanitation Program



Participants of Corn Expo during field trip in Aceh



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5 | Mount Kelud Eruption: Nestlé Indonesia Supports Farmers in East Java

The eruption of Mount Kelud on February 13, 2014 has affected the dairy farming areas in Kediri, East Java. Residents left behind 30,000 stressed cows to seek refuge in shelters and evacuation centers.



Nestlé Indonesia helping dairy farmers by mobilising fodder for cows

Dairy farming is the economic backbone of people living in the affected areas. The eruption has unequivocally caused a serious decrease of milk production from the region. This poses a serious threat to the livelihood of small farmers.

In collaboration with regional governments and dairy cooperatives, Nestlé Indonesia helped dairy farmers and their families in severely

affected villages by providing them with food and beverages to help them sustain their living.

The company also assisted farmers to restore the animals' wellbeing and productivity as well as provided fodder to help feed the cows. Nestlé called other members of Dairy working group, Cargill and DuPont, to join hand in providing feeding in the form of corn silage, corn plants and concentrate.

President Director of Nestlé Indonesia Arshad Chaudry said: "Our thoughts and prayers go to the victims and families of the Mount Kelud eruption. Dairy farming is an important economic contribution in this region. Therefore, our focus since the incident has been to provide whatever possible assistance to dairy farmers and their families so that they can have their normal lives as soon as possible."

He added that by the end of February, Nestlé had distributed 70 tons king grass, 40 tons silage and



Farmers distributing fodder for cows

complete cattle feed and 210 tons corn plant forage.

The eruption of Mount Kelud has forced the evacuation of tens of thousands of people; among them were dairy farmers who supply 650,000 liters of fresh milk daily to Nestlé Indonesia.

Vice Minister of Agriculture Rusman Heriawan added: There are about 30,000 dairy cows that are stressed. To restore the condition of the cows, the government has provided assistance of 100 tons of feed forage, medicines, vaccines and disinfectants for cow victims of the eruption.

During the Nestlé Indonesia's Creating Shared Value Forum on February 18, 2014, Rusman Heriawan also expressed his appreciation of the good coordination among private sector, people and the government. "We worked together with Nestlé and other parties in managing the situation. We appreciate Nestlé's effort in bringing adequate supply of fodder to the stressed cows to help farmers restore their livelihood."



© Nestlé Indonesia

6 | Scaling-Up Sustainable Agriculture is the Responsibility of All Stakeholders in Agricultural sector

Chaudhry, President Director of PT Nestlé Indonesia and other members of a panel addressed the issues on how scale up sustainable agriculture practices that support the development in rural areas and ensure food security. The challenge here is to introduce longer-term practices and approaches to a sector that traditionally takes a shorter-term view. Other benefit of scaling up sustainable agriculture practices is to help improve yields, quality, income, and thus livelihoods. Improved livelihoods mean better access to health services, education and other resources at the micro level, which transforms into improvements at the macro level.

Mr. Arshad Chaudhry explained; "There are many parties and companies have made efforts on sustainable agriculture practices, and one of the example of the multi-stakeholders efforts in this is PISAgro, where many members have led initiatives in sustainable agriculture practices of different kind of commodities and crops, but those are not enough to support the country's growth and demand

The launching of Nestlé Indonesia CSV Report 2013



Panel of Speakers in the 2014 Nestlé Indonesia CSV Forum

Agricultural activities in the rural areas absorbed 43% employment in Indonesia despite its 14.4% contribution to the Indonesia GDP. Meanwhile about 11.47% of Indonesian population lives under poverty line and 66% of these live in the rural areas mainly in Java and and Sumatera. Therefore, agricultural sector still plays an important role to eliminate poverty in rural areas.

Sustainable agriculture practices aim to help farmers and their families in rural areas to improve the productivity and quality of their produce, thus generating sustained income and improving their livelihood. At the same time sustainable agriculture practices educate farmers to utilize land, water, fertilizer and pesticides in appropriate manners to limit environmental impacts of these activities. Therefore, sustainable agriculture practices can help to eradicate poverty, ensure food security and at the same time help to scale up sustainability efforts in rural areas.

In the 2014 Nestlé Indonesia Creating Shared Value (CSV) Forum, held in Jakarta on 18th February, Mr. Rusman Heriawan, the Vice Minister of Agriculture, Arshad

in the future, where the number of population will reach 300 million by 2025. I believe that such challenges could only be resolved if all stakeholders join hands and take concrete actions, as no single entity alone can resolve this issue. A concerted effort towards sustainability is the way to go."

As the world's largest food and beverages company that has been operating for 148 years, Nestlé adopted the concept of Creating Shared Value as a fundamental part of Nestlé's way of doing business.

"We believe that for a company to be successful over time and to create value for its shareholders, it must also create value for society at the same time. With CSV, we continuously and consistently make efforts that all of our activities contribute to the society. Over the long term, healthy populations, healthy economies and healthy business performance are mutually reinforcing."

The ultimate goal of organizing the CSV Forum is to gather all stakeholders and to address some issues of the focus areas of CSV i.e. nutrition, water and rural development, in order to stretch the benefit that CSV can bring to the society by inspiring every element in the society to ensure sustainability in their day-to-day activities. This includes for other businesses to adopt the CSV philosophy in their operations to ensure sustainability. Chaudhry further added: "We hope that all stakeholders will have a common understanding on the importance of collective efforts in scaling up sustainability."

7 | Four Districts in Indonesia Set their 2014 Soybean Production's Workplan Based on Unilever's Model

The model of PISAgro's Soybean Working Group, the leader of which is Unilever Indonesia, is being adopted by four districts: Indramayu, Grobogan, Nganjuk, Madiun. In a workshop on February 28 to March 1, 2014, at Unilever Learning Center, Megamendung, East Java, the four districts designed the working group's action plan for 2014 with end-to-end supply chain approach. The workshop brought together 40 key stakeholders, that includes: Head of Agriculture Office of the

four districts, Extension Service Facilitators, Farmers, Director of Legumes and Tubers Crops, Ministry of Agriculture, and Representatives of Unilever, Indofood, and BNI. All the stakeholders represent various actors in the soy supply chain that ranges from input supplier, loan provider to off-taker. The result of the workshop is 2014 work plan that outline the production targets, training target and project timeline which will be applied in each of the Districts.



Developing the 2014 Action Plan

According to Director of Legumes and Tubers Crops, Ministry of Agriculture, Rita Mezu, the national soybean productivity is in the downtrend in the last five years. The number is predicted to decrease from 807,568 tons in 2013 to 708,000 tons this year. With the total domestic soybean consumption of 2.7 – 2.8 million tons per year, Indonesia imports 1.9 million tons this year. For 2014, the government sets soybean production target of 1.5 million tons.

In the workshop participants discussed various topics covering the entire supply chain such as quality of seedlings, on-farm training, post harvest training, access to markets, and access to finance.



In 2014, PISAgro's Soybean Working Group will be engaging with 177 farmer groups on 5,400 ha of land with production target of 10,800 tons yellow soybean.

Evaluating Programs in 2013

8 | 300,000 High-Yield Clonal Rubber Seedlings will be Distributed to Smallholder Farmers in 2014

Kirana Megatara aims to distribute more than 300,000 high-yield clonal rubber seedlings to 600 smallholders in North Sumatra, Jambi, and South Sumatra this year under Kirana Megatara Smallholders Partnership Program. Smallholder farmers will not only receive the seedlings, but also receive training for nursery management, technical assistance on good agriculture practices and various tools aim at improving productivity, such as tapping knives. The seedlings provided by Kirana Megatara Group come from its nursery sites located across Sumatra. The nurseries are developed in cooperation with Sembawa National Rubber Research Institute to ensure quality-proven ones.

One of the long-standing sustainability issues for natural rubber is the aging trees. The old and damaged rubber trees have outpaced the productive trees. It is estimated that 400,000 ha out of 3.4 million ha is in need of replanting. Majority of them are smallholders area. Smallholders are responsible for 85% of the natural rubber production in Indonesia. The lack of access to good quality seedlings is the major reason for smallholders' low productivity.



Jefri Bawono, Director of PT Jambi Waras (Kirana Megatara Group) hands over seedlings to head of a smallholder group in Jambi

© Kirana Megatara

welcome new members

We're pleased to announce and welcome our new members:

Cargill, IFC, East West Seed Indonesia, and

The Australian Government's Department of Foreign Affairs and Trade (DFAT) on board.



Cargill

Cargill provides food, agriculture, financial and industrial products and services to the world. Together with farmers, customers, governments and communities, Cargill helps people thrive by applying its insights and nearly 150 years of experience. Jean-Louis Guillou, President Director of Cargill Indonesia talked to PISAgroNEWS.

PISAgroNEWS: Why does Cargill join PISAgro?

Jean-Louis Guillou: Cargill is committed to developing socially responsible and environmentally sustainable food supply chains everywhere in the world. We seek to help small holders improve their livelihoods by helping them boost production on their farms. We believe that PISAgro provides an excellent setting to have both companies and government cooperate in helping to promote rural development in Indonesia.

PISAgroNEWS: What targets does Cargill wish to achieve?

Jean-Louis Guillou: Cargill supports PISAgro's objectives to raise farmer income, reduce greenhouse emissions and to increase productivity. In addition, we continue to seek to learn and develop new models of assisting smallholders that can efficiently be brought to scale with the goal of reaching as many farmers as possible.



International Finance Corporation (IFC)

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. IFC's vision is that people should have the opportunity to escape poverty and improve their lives. Rick van der Kamp, IFC Operations Officer shared with us his view.

PISAgroNEWS: Why does IFC join PISAgro?

Rick Van Der Kamp: IFC is fully committed to sustainable agriculture as a key priority for growth and development in Indonesia. As such, joining PISAgro was a logical step for us, all the more because many of our private sector partners are already engaged with PISAgro. Our leading role in the agri-finance working group confirms our commitment - we want to be part of creating the solutions for a sustainable agriculture that benefits all.

PISAgroNEWS: What targets does IFC wish to achieve?

Rick Van Der Kamp: IFC has not set any specific targets for its membership with PISAgro; we fully agree with the 20-20-20 targets as set out by PISAgro's leadership. In that sense, we are interested in any activities we can support through PISAgro that increase yields, and reduce poverty and GHG emissions. The last two in particular (poverty reduction and climate change) are key priorities for us at the global 'World Bank Group' level as well.



East West Seed Indonesia

East West began in 1982 with the goal of blending European style seedsmanship with Asian tropical vegetables. East West is convinced that by introducing intensive breeding programs to developing vegetable seed markets could improve the lives of farmers while building a successful business. Glenn Pardede is the Managing Director.

PISAgroNEWS: Why does East West Seed Indonesia join PISAgro?

Glenn Pardede: Agree to one of the value of East West Indonesia, as Farmer's Best Friend, East West Seed has been providing the solution to Indonesian farmers by producing high quality vegetable seeds. Involving agriculture corporations and their concerns about the development of various food commodities has been initiated by PISAgro. Therefore, together with PISAgro we hope that we can share knowledge and introduce farmers to new and more resilient crop types. Also, in engaging farmers into the supply chain in a way that benefits them and creates sustainable livelihoods.

PISAgroNEWS: What targets does East West Seed Indonesia wish to achieve?

Glenn Pardede: Together with other members of PISAgro, we would like to contribute to increasing farmer's welfare. Our mission is to provide innovative products and services that will help increase farmer's income and promote the growth and quality of the vegetable farmer industry. This is in line with PISAgro's mission, as a public-private partnership platform that aims to support the Indonesian government in addressing the issue of national food security by increasing agricultural commodity production and improve the livelihood of small farmers.



Australian Government's Department of Foreign Affairs and Trade (DFAT)

The role of the Department of Foreign Affairs and Trade (DFAT) is to advance the interests of Australia and Australians internationally. This involves strengthening Australia's security, enhancing Australia's prosperity, delivering an effective and high quality overseas aid program and helping Australian travellers and Australians overseas. PISAgroNEWS had the chance to ask Jim Tomecko, DFAT Senior Adviser AIPD-Rural the questions.

PISAgroNEWS: Why does DFAT join PISAgro?

Jim Tomecko: As part of the Australian Government's development assistance program DFAT (Department of Foreign Affairs and Trade) has been engaged with the Government of Indonesia in the field of rural development for several decades. Its most recent project, called AIPD-Rural, aims at increasing incomes for 300,000 small farming households in eastern Indonesia over the next 3-4 years. It will do this by working in a number of primary production sectors that we think have growth potential (maize, mangos, pulses, beef, chillies, shallots, cocoa etc.). Within the next six months we shall probably be active in 10-15 agricultural sectors. Where AIPD-Rural is different from many projects that have gone before it, is that while our central counterpart is still the Government of Indonesia, our core implementation partners are more typically from the private sector. Because our approach is more "market driven" our interest in joining PISAgro is to actively participate in the sector working groups so that we can network with private sector players that see short term gains from either increasing on-farm productivity or in stimulating greater market access for large numbers of small farmers.

PISAgroNEWS: What targets does DFAT wish to achieve?

Jim Tomecko: Over the next few months AIPD-Rural will be developing outreach targets for the above mentioned agricultural sectors. When these are more concrete we shall be happy to share them with PISAgro.



PISAgro



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