



SCALING FINANCE FOR NDPE COMPLIANT PALM OIL PRODUCERS AND MILLS IN INDONESIA



Client: IDH, 2023



Sector: Palm oil



Services: Palm oil financing, Investment

IDH has been working in Aceh since 2017, with palm oil supply chain partners, producers, and the government to tackle deforestation and peatland conversion. Establishing a palm oil financing scheme was identified as critical to deliver scale. The Symmetry team was tasked to undertake an assessment of the feasibility and impact of three options, for smallholder and mill No-deforestation, No-peat and No-exploitation (NDPE) compliant palm oil financing. The three models examined, were:

- ⇒ Model 1: A credit line managed by the palm oil mill.
- ⇒ Model 2: Creating a new legal entity, or taking over an existing license, to provide financial services in Aceh.
- ⇒ Model 3: Setup, a new legal entity in the form of a trading house.

Key findings

- Legally all three schemes were possible, however Model 1 would have no regulations on loan monitoring/ collection which was a major concern.
- Model 1 has the lowest upfront investment costs, as it uses existing supply chain structures. Model 2 requires investment capital/subsidy for information technology systems and the training of stakeholders. Rural Banks have sufficient funds, so no additional working capital would be required. Model 3 has the highest establishment costs and operating costs; in addition, Value Added Tax and corporate taxes apply.
- Model 1 has low stakeholder buy in from the mills. Model 2 has high stakeholder buy in from local authorities, while Model 3 requires the establishment of a professional trading company, with multiple business lines which would require considerable time and socialization.

Overall, Model 2 was deemed to have the highest potential in the short to medium term (1-5 years). The report provided recommendations on model adjustments, mandatory requirements, technological requirements, and support programmes to mitigate some of the associated risks. Discussions were held with various investors to support this model, to scale NDPE palm oil financing in Aceh.