

IDH Palm Oil Program

The IDH Palm Oil Program supports the production of traceable, sustainable palm oil at scale through partnerships with local and international stakeholders in Indonesia, Malaysia, and West Africa. IDH focuses on scalable interventions in 'supply sheds': geographic areas where mills and refineries draw their supply. The interventions should create sufficient volume to allow mills and refineries in supply sheds to process 100% traceable and sustainable palm oil, improving cost efficiency and the potential for mainstreaming. The Program builds coalitions to deliver innovations for key challenges such as traceability, smallholder productivity, access to finance and sustainability monitoring. This is expected to boost supply of traceable, sustainable, palm oil and raise productivity, which has the potential to improve the livelihoods of hundreds of thousands of smallholders and reduce pressure to expand palm oil plantations into tropical forests and peatlands.

Palm Oil

Avoid potential deforestation due to expansion of palm oil



Overall Objective

Avoided deforestation and GHG emissions due to palm oil.

Main sustainability issues targeted

Deforestation, traceability; greenhouse gas emission; smallholder productivity and livelihoods.

Private Partners

Unilever, Wilmar, PTPN III, London Sumatra, Cargill, Musim Mas, Golden Agri Resources, Makin Group, Asian Agri.

Other partners

MVO, Roundtable on Sustainable Palm Oil, Palm Oil Smallholders Union, Wild Asia, Tropical Forest Alliance 2020, World Resources Institute.

Governments

Indonesia, The Netherlands.

Focus Countries

Indonesia, Malaysia, West African countries.



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In the sector

Demand for palm oil, the world's most used vegetable oil, is expected to exceed 80 million metric tons by 2020 from current global production of around 50 million metric tons. Palm oil is mainly produced in Indonesia (47% of global production) and Malaysia (38%). The annual land expansion for palm oil in Indonesia is significant and has frequently been linked to deforestation. In response, companies are now increasingly signaling their commitment to use deforestation-free, traceable, sustainable, palm oil.

The IDH palm oil program seeks to support improvements in palm oil sustainability through two work streams:

1. Convening industry, government and other actors around industry-level solutions to common challenges such as traceability and legality.
2. Supporting investment on the ground to drive greater sustainability in supply sheds, particularly amongst third party suppliers and smallholders. Supported by robust monitoring, this should reduce pressure to expand into forests.

Theory of Change

Business drive

Several of the world's largest palm oil users and producers have committed to using only deforestation-free, traceable, sustainable palm oil. IDH builds coalitions within the industry to transform these aspirations into workable solutions that are supported by a sound business case.

Industry level convening

Although many companies are working towards improved sustainability, industry level coordination is a challenge. If the industry is to move forward with the speed required, coordination and cooperation are required to minimise duplication and maximise efficiency. IDH seeks to convene industry stakeholders to coordinate around common approaches to problems such as traceability and legality, so that the industry moves at critical mass.

For example, a lack of consensus on the practical meaning of traceability prevented initially implementation of traceability solutions at the scale needed to be cost-effective, while at the same time increasing administration costs and complexity. To resolve this, in 2014 IDH convened a group of leading producers, traders, refiners and off-takers to create a common definition of traceability and a roadmap to achieve it. The definition has since been adopted or referenced by other industry parties such as the Consumer Goods Forum. The group is now working towards coordinated solutions for post traceability verification and risk management.

Supporting work on the ground

Alone, traceability will not deliver sustainability. Production practices on the ground need to become fully sustainable. This is often a challenge for small and medium enterprises, which combined form a significant component of the supply base. IDH

supports development of incentives for such enterprises to become more sustainable. Smallholders, who cultivate 48% of the palm oil area in Indonesia, often lack knowledge, cannot access finance for investment, and suffer from low productivity and poor livelihoods. To mitigate this, smallholders need to be better integrated into traceable, sustainable, supply chains. The mills they supply to need to be incentivized to provide support.

The IDH program addresses this challenge by co-investing with private sector partners in programs on the ground, providing businesses with relevant support and farmers with good agricultural practices training and advice on inputs for yield intensification. Increased productivity equates to livelihoods improvement and less land needed for production. IDH also involves mills and local government in monitoring activities to ensure that deforestation is avoided, thereby reducing potential GHG emissions.

Sustainable supply sheds

The palm oil program uses geographical sourcing bases (supply sheds) to create sufficient volume for mills to produce 100% traceable, sustainable, palm oil. This is essential to build critical mass and improve efficiency and cost effectiveness. IDH is building supply sheds in South Sumatra, Aceh and West Kalimantan.

Program Objectives

To mitigate deforestation and GHG emissions by improving productivity:

- Drastically increase the amount of deforestation-free, traceable, sustainable, palm oil, allowing supply to become cost effective.
- Improve sustainability among 3rd-party suppliers, including support for boosting smallholder productivity and livelihoods in existing production areas.

Key Activities in 2016

- Work with government of South Sumatra, Zoological Society of London and other partners to develop a Green Growth plan for South Sumatra
- Achieve industry alignment on traceability reporting, risk assessment and 3rd-party sustainability
- Implementation of supply sheds and smallholder projects South Sumatra, Aceh and West Kalimantan
- Implementation of prototype innovative financing model, allowing smallholders access to credit needed for working capital and productivity investments (i.e. replanting).
- Draw more companies into the program, building the necessary scale to reduce costs and transforming the supply chain to become more sustainable.