



PISAgro

# NEWS

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# letter from the editor

## Dear Valued Partners,

As the year draws to a close, it is a wonderful opportunity to reflect on what we have accomplished, new challenges that have emerged, and plan for the year ahead. The commitments by various stakeholders during the Innovative Value Chain event held earlier in May were an important push towards our goal of reaching one million farmers by 2020. However, one resonating topic that is oft-cited as a barrier that must be overcome to reach that objective is access to finance.

In this edition, we are delighted to receive contributing points of views on this topic that is doubtless close to many of us. They challenge some of our assumptions, but more importantly, also encourage us to think creatively of workarounds. We feature some of the financing work being done by the corn and palm oil working groups, as well as business models documented by the Sustainable Cocoa Production Program.

We still have some ways to go, but the learning also never stops alongside it. Check out our coverage of Grow Asia's Practitioners' Workshop in Singapore, where delegates from Indonesia not only exchanged learnings with peers across the region, but also explored solutions through breakout sessions and development of country-level plans.

**Thank you for sharing this remarkable journey with us and we wish you all happy holidays and a wonderful new year.**

**The Editorial Team**

# Understanding Agrifinance (Part 1)

*Over the past years, I have been hearing that the commercial loan interest rate “is too high for farmers” and that farmers cannot pay those high interest rates. The present article aims to pull apart this point of view and show that market principles need to be applied in order to address the lack of agrifinance for farmers.*



**By Dr. Dirk Lebe**  
Deputy Program Director -  
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There are two approaches to tackle this topic: From the supply side (Costs as a price-determining factor) and from the demand side (Additional profit).

Looking at the demand side first: Let's imagine, a farmer has to pay IDR 1,000,000 interest for a loan. Does the interest rate matter? No! It doesn't matter if the farmer pays 1% or 2% or 10% per week, per month or per year, flat, reducing balance or whatever. The only thing what matters is that the farmer has a higher income than what the loan costs. In our case, he or she should earn IDR 2,000,000 plus the original loan amount back. That's it. If so, the farmer has made a profit, independent from the interest rate to be paid and has still some risk buffer. In other words, the farmer has been able to benefit from taking on a loan.

From the supply side, the view is a bit more complex. Let's look into the product costs of a loan. The main cost drivers for a loan product are cost of funds (how to refinance, because the loan money needs to come from somewhere), default risk (how many farmers don't repay), operational costs (how much it costs to provide the service) and profit margin (a financial institution wants to and should earn money with its business). There are other costs, but to explain this topic we can leave them out for the moment. For those most important cost factors and a perfect 100% repayment rate, please see a small calculation example for three different loan sizes:

		Example loan amount		
		1,000,000	3,000,000	10,000,000
Cost of funds (%)	8.24%	82,400	247,200	824,000
Operational costs (fix)	150,000	150,000	150,000	150,000
Profit Margin (%)	2.00%	20,000	60,000	200,000
<b>Total costs</b>		<b>252,400</b>	<b>457,200</b>	<b>1,174,000</b>
Costs in relation to loan amount		25.24%	15.24%	11.74%

Let's explain these figures: The cost of funds for a financial institution depends on the source of the funds. A client's saving is usually cheaper than a client's time deposit, which is cheaper than a commercial loan. In case equity is used, it should at least be able to match the inflation rate. The interest rate for a six-month time deposit in commercial banks is 8.24% as per March 2014. From the maturity transformation point of view it is not perfect because funds are used longer than actually available, which could cause a liquidity constraint in the financial institution. However, it is sufficient for our example. For operational and staff costs, we should consider that a loan officer has to analyze and monitor the client and there is back office staff to be paid. A salary of IDR 3,200,000 per month divided by 160 working hours comes down to IDR 20,000 per hour. A two hour loan analysis (including travel time), a one hour monitoring visit, and time spent by back office staff and the credit committee comes in our example to a total of around IDR 130,000 per loan. Office rent, consumables, telephone expenses and other operational costs are calculated based on a rather low IDR 20,000 fixed cost. For the profit margin we use 2%, although the Indonesian net interest margin is closer to 5%. With perfect repayment behavior the absolute cost share of the loan ranges between 11.74% and 25.24%. That is more or less an absolute minimum commercial rate, for which a financial institution would consider the agricultural sector as somehow cost covering. Please feel free to imagine higher costs. Due to the fixed costs, the final interest rate depends heavily on the loan size, especially in the case of very little amounts. The effective interest rate can be calculated based on the specific repayment plan and other mandatory costs involved, such as credit life insurance, crop insurances, origination fees, notary fees, etc.

The world is not perfect and the agriculture sector is not risk free. It is likely that at least some default will occur. Non-performing loans to Micro, Small and Medium Enterprises (MSME) in the agricultural sector in Indonesia stand at 4.16% as per March 2014 (including hunting and fishery). Once again, if this is acceptable for a financial institution or not depends solely on its profit expectations. In addition to this, off balance credit channeling positions (usually governmental “loans”) to the agricultural sector in Indonesia have become non-performing at a rate of 66.06%! This is currently a huge risk factor to keep in mind, although credit risk analyses might have been non-existent in that particular case. Furthermore, excellent commercial microfinance banks have portfolios at risk (PAR > 30 days) of about 1% (although the portfolio composition is usually not agri-dominant). Liabilities to Third Parties (savings, time deposits, commercial loans) have to be repaid to the funder together with the costs involved, even if a financial institution doesn’t get an agri-loan back from the borrower. In the end, the good borrowers have to bear those costs. The table below shows how repayment rates influence the cost share of those good:

		Example loan amount		
		1,000,000	3,000,000	10,000,000
Cost per loan with repayment rate of	100%	252,400	457,200	1,174,000
	90%	377,640	802,920	2,291,400
	80%	502,880	1,148,640	3,408,800

The 100% repayment rate has the same costs as stated in the first table. With a repayment rate of 80%, the costs to accommodate a client repaying a loan of IDR 1,000,000 has almost doubled to more than half of the loan amount. Consisting of IDR 252,400 own/direct costs (as before), plus IDR 250,480 cost coverage for defaulting clients. The absolute essential interest share for an 80% repayment rate ranges from 34.09% to 50.29%. Depending on other costs and the repayment schedule, effective interest rates could be significant higher. That’s the reality.

Let’s now look into options to reduce those costs, which is obviously possible with each single cost position. Cost of funds could be lowered with soft loans, interest subsidies, grants/equity, lower deposit interests for clients etc. Relative operational costs could be reduced through large-scale implementation, more efficient processes, limited operational areas (hence less travel time for the loan officer in the case of field visits), higher loan amounts, longer maturities, lower salaries to the staff of the financial institution, or any other cost reducing activity. The profit margin should be reasonable. At this point I am not talking about profit maximizing, but rather about a reasonable, small profit. Default risk could be addressed with better loan analyses, stricter arrears management, and use of collateral including guarantees or guarantors (for this contemplation the kind of collateral doesn’t matter).

If we lower the market interest rate for the farmers artificially through any kind of intervention and then that intervention stops, what happens? Right, the financial institution will sooner or later raise the interest rate back to a commercial rate. The farmer will then have to pay for it or the financial institution might stop that particular lending scheme, meaning that all those efforts were not sustainable. Thus, we can keep subsidies running forever (and somebody has to pay for it) or the interest rate has to be raised to a commercially sustainable level. If a commercially-oriented actor doesn’t make profit in the long run, it is not sustainable to stay in the market. Short-term interventions to reach a larger scale are of course an option to incentivize specific behavior or gain market share.

And now? Do you still think that the interest rates for farmers are too high? Or are they justified, considering the costs involved for such small loans? Should we design our programs and products according to that reality? Placing profit-making actors behind the wheel and letting them drive the growth, even with the knowledge that the farmer has to pay the commercial price to be able benefit from the service provided?

Access to Finance is not only about loans. It is possible to accumulate “useable large lump sums” for investments, farm maintenance or working capital and prevent farmers from paying additional expenses for the use of funds. That solution doesn’t seem attractive, but it’s already well known: Savings. Many farmers will say that they are not able to save. Really? Saving is a matter of discipline (and reducing the temptation to access the funds). Are farmers disciplined enough or can we teach them to be? Yes? Then they can save.

A loan is nothing more than future savings! The repayment of a loan is a saving rate (installment) plus additional incurred costs (interest and fees to be paid). Saving might be a sacrifice, but repaying a loan would be too. Savings must be regular and can be kept simple. Swisscontact, through the Sustainable Cocoa Production Program (SCPP), promotes savings of “1 kg of cocoa beans per week.” One kilogram amounts to more than IDR 30,000 depending on quality and can be worth more than IDR 35,000 if properly fermented. After 6 months, every willing and disciplined farmer can have sufficient funds accumulated to buy (in the case of cocoa) a fermentation box or fertilizer for seasonal farm maintenance. We have to admit that administration requires some thinking and options depend on the particular value chain. One option would be the use of cocoa traders as agents for banks through branchless banking products.

In fact, more farmers can be reached by promoting savings than by promoting loans. Anyway, it is an illusion that all farmers are eligible to get a loan from a financial institution and it is a headache to select the right farmers, farmer groups or farmer organizations. For savings, the decision is easier: Is the farmer willing to save? If yes, every single farmer can be included in a saving program and there is no financial risk for financial institutions, private sector companies, donors, NGOs or other stakeholders.

There is at least one circumstance where interest rates are indeed too high. For example, a farmer who invests loan money into farm productivity will not benefit from a loan if the increased production does not cover the interest rate and repayment scheme costs. If this is true for a large share of farmers and savings are not feasible for whatever reason, an intervention to stimulate productivity or minimum prices might be needed in case the crop is of particular interest for the respective authorities or private sector companies. In that particular case the crop price may be temporarily too low. From the economic perspective, that crop is more of a hobby than a business. An economically rational thinking farmer should consider switching the crop.

Many claim that the interest rates are too high. Before spreading this message, please consider the situation and objectives of a potential loan service provider, which also participates in strengthening the value chain. Just because a nominal interest rate seems to be quite high, does not mean that it is unjustified, profit maximizing or exploiting farmers. Also the use of market distortion instruments like subsidies, grants or minimum prices cannot be a permanent solution and its use delays commercial solutions, especially if charged cost are below incurred costs.

(All data are taken from the official Bank Indonesia Banking Statistics as per March 2014.)

The author has 20 years’ experience in cooperative, regional development and commercial microfinance banking in Europe, Africa and Asia, holding amongst others the position as Director of Finance. Currently he works for Swisscontact as a Financial Services Specialist in the Agribusiness Financing Facility of SCPP to undertake anything necessary to increase the income of cocoa farmers through improved access to finance.

## Smallholder Farmers and Innovative Financing

Indonesian smallholder farmers manage over 40 percent or 4.5 million hectares of palm oil estates in the country. More than half are managed by independent smallholders with the remainder run by plasma smallholders where growers partner with big commercial plantations.

But independent smallholders face many challenges including low productivity and yield due to poor quality seed stock and lack of training in estate management. This means that the average smallholder yield per hectare is low - between two and three tons per hectare. As a result, many smallholders face an urgent need to replant their oil palm, to replace aging trees and to improve their productivity through improvements in crop management.

But replanting is expensive, and takes time - it can be four years until the new tree is productive, and throughout this period, farmers need to invest in new seedlings, fertilizers and the protection of the young trees from pests and disease, without a steady source of income. As a result, many smallholders find it difficult to finance a replanting and instead try to expand their planted area adding to pressure on the forests of Indonesia.

Renville, a smallholder farmer from Bandar Pandang, Indragiri Hulu Regency describes the situation of most small growers, "The productivity of my plantation is very low. This is because my trees were grown from poor

quality seeds and don't produce the required grade. Due to this I cannot sell at the market price."

### Introducing the Innovative Financing Scheme

A public-private partnership involving the Indonesian Government, the Indonesian Chambers of Commerce (KADIN) and the Indonesian Economists Association (ISEI) under the umbrella of Partnership for Indonesia's Sustainable Agriculture (PISAgro), aims to reach these farmers and help them access financing and training to boost their yields and income. GAR and PT SMART are actively involved in this through the Innovative Financing Scheme.

The Scheme aims to:

1. Support the replanting of two million hectares of independent smallholder estates
2. Double or triple the productivity of independent smallholders to match the yields achieved by commercial plantations
3. Support the livelihoods of one million independent smallholders during replanting
4. Potentially remove the need to open another one million hectares of agricultural land

The Scheme has been launched in Riau province on the island of Sumatra. It works by encouraging farmers to form cooperatives become sustainable and by doing so, secure long term supply contracts with GAR's supplier mills.

Reza Andriansyah, Leader of PISAgro's Palm Oil Working Group and Vice President of PT SMART Tbk. (third from right) and Burhanuddin, Sr. Estate Manager of PT SMART Tbk. (second from right) pose with farmers who join the Innovative Financing Program





© Sinar Mas Agribusiness and Food

PT SMART's agronomist explains about good agricultural practice to farmers

In addition to long term supply contracts, the farmer cooperatives are able to access certification in the form of the Indonesian Sustainable Palm Oil (ISPO) system, government land certification, grants, training and subsidized loans to enable the farmers to obtain certified high yielding seeds and the best available crop science.

The results are higher yield and income for the farmers, a greater and stable supply of certified palm oil for GAR and reduced pressure on nearby forests.

The local government is also supportive of the Scheme as Regent Jeffrey H. Noer of Kampar District, Riau explains: "There are about 600,000 hectares of palm oil plantations in Kampar and the majority of trees are in urgent need of replacement. If it is not done, our farmers will lose their source of income. GAR/PT SMART has provided a lifeline for communities in the area, enabling the replanting of the palm estates."

The Scheme currently involves 320 farmers across Riau managing close to 900 hectares and following its success, GAR plans to roll it out in other areas.



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Agronomist from PT SMART checks the condition of the palm oil plants

# 13 Business Models For Cocoa Farmer Cooperatives

Farmer Organizations are increasingly on PISAgró's agenda to achieve sustainability in various crops.

**"If well organized, managed, funded and received by the other stakeholders in the agribusiness environment, farmer organizations can make meaningful and impactful improvements in the lives of smallholder farmers."**

The Sustainable Cocoa Production Program (SCPP) has been working with cocoa farmer organizations for a while. However, there is still a long way to go before overcoming various obstacles such as the capacity of board members, acceptance from the private sector, and lack of organizational structure.

The development of viable business models is of paramount importance. Only through income generating business models can a farmer organization operate viably, capitalize itself, create jobs, contribute to the economic development of the region, develop new business models and even pay a small salary/honorarium to its board members.

In a brochure published in 2015, SCPP outlines 13 business models for cocoa farmer cooperatives. Some of the identified business models most suitable from risk and need-for-capital perspectives are shown below. Depending on the position of the stakeholders, the business models come with advantages and disadvantages:

**Certification holding**, where the cooperative plays a role in voluntary certification standards like UTZ or Rainforest Alliance. The cooperative performs internal audits, trains farmers and is responsible for the administrative part of the certification, resulting in a share of the certification premiums distributed. If sufficient turn-over is achieved, it can be a major source of income, such as in the case of a cooperative with 2,291 members in South-East Sulawesi that received more than IDR 1.7 billion in 2016.

**Commodity trade**, where the cooperative knows the market and the players. However, working capital is needed and if it is still in a start-up phase, financial institutions will be reluctant to lend to such institutions. At the same time the farmer organization's own capital is still limited and they are trapped in a cycle of low liquidity, thus unable to perform their activities. Although margins might be tight, trade would allow the private sector to source quantity.

**Land registration**, where the cooperative supports its members to get land titles. With land titles, it is expected that the farmer invests more in their land or has access to credit. Although the financial benefits for the cooperative are very limited, the benefit for its members is enormous. The financial risk for the farmer organization is almost nonexistent.

**Fertilizer retail**, where the cooperative has a license to trade with fertilizer, pesticides and other inputs. Purchased in bulk with a discount and sold to members and non-members would make the input available for farmers. Working capital would be needed and inputs might be sold on credit to the farmers.

SCPP's brochures of  
**"13 Business Models for Cocoa Farmers Cooperatives"**



The brochures are available in **English** and **Bahasa Indonesia** on the Swisscontact country website.

[www.swisscontact.org/indonesia](http://www.swisscontact.org/indonesia)

Although the four aforementioned models are considered the most important ones for cocoa, other business models described contain savings, loans, provision of trainings and services, as well as compost production, post-harvest services or demonstration farm management.

However, business is business and sometimes there are no friends in business. If left on its own too soon, farmer organizations might be crushed by the business interest of large multinationals at a stage where they are still fragile and can be destroyed by different interests, resulting in a failure that "everyone knew was going to happen." Therefore, it is important to give new farmer organizations time to develop and build the structures to be beneficial not only for its members, but for all stakeholders in the supply chain.



Gender and Resilience in PISAgro Corn Project:

# Microfinance Services Support Female Farmers to Tackle Informal Lenders

*“We have to repay almost twice the amount we actually borrow,” Nurkomalasari, 40, tells us bitterly about the payments she has to make to moneylenders. She is just one in a long list of smallholder farmers trapped in the moneylending chain in Dompu district.*



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Discussion between PISAgro's Corn Working Group & female corn farmers in Mbuju village, Kilo Subdistrict, Dompu District, West Nusa Tenggara

In the Bima and Dompu districts of West Nusa Tenggara Province, dealing with moneylenders is a plight smallholder corn farmers face on a regular basis. The farmers do not have many options to address their financial problems, especially when they are desperately in need of cash to start preparing their land for planting season and have to purchase fertilizer, or to fulfil their daily needs when they face crop failure in times of drought. Limited access to microfinance services forces farmers to rely heavily on moneylenders, to whom most of their income obtained from their crops goes. “Just as an example, out of around twenty million rupiah we earned from two hectares of land, almost fifteen million will be spent to repay the debt to moneylenders, while actually we only borrowed eight million.,” Agustina, a 32 year-old female farmer, shares about the situation most farmers in her village, Madaprama, Woja Subdistrict, Dompu District, have to manage.

Even though the decision to borrow money is made by both the wife and husband, it is usually the wife who has to seek out loans; and most of the time, quick money can only be accessed from moneylenders. “Men are often embarrassed to deal with debts. Meanwhile,

moneylenders also prefer to have women as their debtors, as it is usually easier to intimidate women to ensure repayment,” explains Rukmini, 45, a female farmer in Mbuju coastal village in Kilo Subdistrict. Consequently, moneylending issues tend to put female farmers in a problematic situation.

Within households, women are usually assigned as the main financial managers, which means they have considerable control over financial resources. While this shows the importance given to the woman's role in the household it also adds to the burden put on her shoulders. In some areas, when corn fails to grow due to drought, women not only have to support their husbands to get more money to replant their farms, but also have to find ways to make sure that their domestic needs are fulfilled. Meanwhile, when their husbands need to move elsewhere to get more income, women are left to care for the family alone.

It is in these farming communities in Dompu and Bima Districts, that the PISAgro Corn Project is supporting smallholder corn farmers with microfinance loans and other bundled services. Through a multi-stakeholder



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PISAgro's Corn Working Group's discussion with corn female farmers in Madaprana village, Woja Subdistrict, Dompu District, West Nusa Tenggara

partnership (Bank Andara, Syngenta, BPR Pesisir Akbar, ACA, 8villages and Mercy Corps Indonesia), the project is working to ease the farmers' burden of managing their mounting debts, and to reduce their dependence on moneylenders for financing their farming activities. "The 864,000 rupiah interest we now pay on our seasonal loan of 8,000,000 rupiah per hectare, is truly incomparable to the amount we have to pay to all those moneylenders," Margareta Fatimah, 42, said, highlighting the benefit she gets from participating in the project. A microfinance loan with a much lower interest rate allows farmers to save more of their income to prepare for the next planting season while it leaves the women with more financial resources to fulfil domestic needs and also to pay education fees for their children. Furthermore, in times when farmers suffer from climatic shocks such as severe droughts, the microfinance loans help farmers bounce back much more easily and replant their farms without worrying about moneylenders.

The stories described above were revealed during a 'gender and resilience assessment' undertaken by Mercy Corps Indonesia's Agri-Fin Mobile Project and BRIGE programs in PISAgro Corn Project locations. BRIGE (Building resilience through the integration of gender and empowerment is a Mercy Corps' program funded by

Margaret A. Cargill which aims to integrate gender and empowerment in resilience programs). The collaborative assessment is a first step towards developing a strategy to incorporate a gender and resilience approaches into the PISAgro Corn project. The objective is for the project to reach more female farmers and to strengthen their capacity to cope with economic and climatic shocks and stresses.



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In the previous issue, we looked at banks' unwillingness to lend to the agricultural sector, and the oft-touted perception that this solely springs from their unfamiliarity with the sector. We saw that by most objective standards, agriculture is in fact a more risky sector than others, caused mostly by the volatility of free market commodity prices and the strong impact of weather and other natural phenomena on production.

For this issue, we want to focus on whether farmers need finance to apply fertilizer, as is often stated. We frequently find statements like

**"Farmers would love to buy fertilizer and increase yields, they just don't have the money"**

Many people approach the topic of smallholder finance by assuming farmers really want to buy fertilizer and other costly agro-inputs, but don't have the funds (this reasoning is often used to explain low farmer productivity). The consequence of this myth is straightforward; provide credit and farmers will purchase and apply fertilizer.

Our field-level data do not confirm this myth, however. First off, agronomically speaking not all application of fertilizer is money well spent. For various crops, farms need to be 'fertilizer-ready' before additional nutrients results in higher yields. Farmer surveys done for the IFC's Indonesia agri-finance project found only a weak correlation ( $R^2$  of 24%) between the fertilizer application rate and real productivity per hectare. In that same project, we also found that most farmers were applying fertilizer already, just not in

the recommended amounts. Macro-level data for Indonesia confirm this—farmers (overwhelmingly smallholders) were using an average of 192 kg/ha in 2010-12. Other countries have different characteristics, of course, but fertilizer is used almost everywhere to some degree.

So the crucial question appears to be why farmers do not apply the optimal amount of fertilizer. The results of research around farmer decisions do not tell a clear story, unfortunately. Econometric models of farmer decisions apply the concept of 'risk aversion' to explain why farmers do not apply fertilizer to the point where the cost equals the expected return.

In cocoa in Ivory Coast, research found most farmers (87%) to be 'extreme to moderate risk averse'. Other studies highlight the importance of a myriad of decision factors. In Kenya, having off-farm income is an important reason not to apply fertilizer (no further explanation given); another important factor is social interactions. In Vietnam, a general lack of trust between farmers was an important reason for limited cooperation and input buying between them. Malawi farmers' household wealth and food security are important determinants for fertilizer use. In Northern Ghana, research found many significant factors contributing to fertilizer use intensity with smallholders, but access to credit was not one of them.

The honest conclusion is that at the time of writing of this article, we do not know enough about farmer decisions to draw firm conclusions. Fertilizer and agro-input application is not always a guarantee for higher



**Rick van der Kamp**  
*IFC Senior Operations Officer*

yields. Farmers seem to understand that taking out a loan to finance inputs that may or may not result in higher income is risky – not the 'no-brainer' it is often assumed to be in agri-finance discussions.

Jared Diamond (author) noticed the difference in approach between farmer decision-making and modern profit-maximization strategies. He argued that historically, having one bad year for farmers meant they would perish. As a result, their 'investment decisions' have to be based on loss minimization rather than output-maximization. This applies to loan decisions as well – farmers know that if the 1-in-10 event happens (floods, plagues etc.), they will literally lose the farm. While this observation is not a conclusion, it provides an alternative hypothesis to farmer decision making — more research would be required to test it.

Apresiasi Peternak 150 Tahun Nestlé

## Celebrating 150 Years, Thanking Local Dairy Farmers



© Nestlé Indonesia

A farmer is playing good agriculture practices games in a form of snake ladder



© Nestlé Indonesia

Dairy farmers in Malang celebrates 150 years of Nestlé



© Nestlé Indonesia

Kids are exploring the balance nutrition pyramid.



© Nestlé Indonesia

The farmers are enjoying the Nestlé Thank The Farmers event.

As part of the global celebration of Nestlé's 150<sup>th</sup> anniversary, Nestlé Indonesia held an event in the region of Pujon, Malang, East Java, as a token of appreciation for local dairy farmers and dairy cooperatives who have contributed to nurture a healthier life for Indonesians.

The sustainability of Nestlé's business relies heavily on the supply of raw materials from farmers, including fresh milk from dairy farmers in East Java. The sustainability of local farming is therefore intrinsic to the long-term success of the company. That's why Nestlé is committed to supporting local farmers, to help improve the productivity and quality of their produce, which in turn will help improve their welfare.

One of the keys to improve the productivity and quality of milk is the implementation of sustainable farming practices, as highlighted in the discussion "Towards Sustainable Dairy Farming", which was also part of the event.

"Nestlé builds a partnership with dairy farmers through dairy cooperatives in East Java by providing technical assistance and trainings in sustainable dairy farming practices, as well as financial assistance to help farmers buy their farming equipment," said Sustainability Agriculture Development & Procurement Director of PT Nestlé Indonesia R. Wisman Djaja.

"This model of collaboration has allowed us to ensure that Nestlé receives high quality raw materials supplies from dairy farmers, and at the same time, dairy farmers gain access to market and earn the necessary support to help improve their welfare," said Wisman.

The collaboration has lasted for more than 40 years now and involves about 27,000 dairy farmers in East Java, where Nestlé absorbs about 500,000 liters of fresh milk per day to be processed at Nestlé's factory in Kejayan, East Java.

In the same discussion, Chairman of SAE Pujon Cooperative Abdi Suwasono explained that when the cooperative was first established in 1962, they only



© Nestlé Indonesia

Assembling the puzzle block in Kejayan Factory booth.



© Nestlé Indonesia

Suwiknyo, one of the three farmers who receives support from PT Nestlé Indonesia (represented by R. Wisman Djaja, the Sustainable Agriculture Development & Procurement Director and Leader of PISAgro's Dairy Working Group) to help him renovate his dairy farm



© Nestlé Indonesia

Presenting the grand prizes to the three best dairy farmers.

had 22 members and 35 cows. They entered into a partnership with Nestlé Indonesia in 1975 and has since developed and reached 8,776 members with about 18,000 cows today.

“Our collaboration with Nestlé has enabled continuous innovation in order to jointly face the challenges and development in dairy farming. It is very important for us since most of Pujon’s society depends on dairy industry for their living,” said Abdi.

Meanwhile, Head of the Department of Animal Husbandry and Animal Health of Malang Regency Ir. Sudjono explained, one of the challenges in national dairy industry today is how local dairy farms can meet the growing demand for milk in Indonesia. Although milk production in Pujon continues to increase, the demand for milk in Indonesia is still largely met by imported raw materials. Therefore, the Department wishes to boost the population of dairy cows in order to help boost milk production.

In addition to the discussion, Nestlé provided interactive activities for farmers and their families who participated in this event. These activities illustrated the value chain of dairy products, starting from the process of dairy farming, production at Nestlé’s factory in Kejayan, marketing to various merchants (grocery stores, minimarkets and supermarkets), distribution of products to the hands of consumers, to the waste management through recycling process and utilization of biogas for the farmers’ daily life. The entire value chain was shown in a series of interesting and informative booths, with a variety of games that could be enjoyed by farmers with their families.

Mr. Hariyanto, one of the dairy farmers partnering with Nestlé said, “Thanks to the collaboration program from Nestlé and SAE Pujon Cooperative, I gain more knowledge about good dairy farming practices. I also use a biogas dome at home, which makes my home and its surrounding cleaner, my family healthier and our spending less. Now, I already have 12 cows with an average milk production of more than 1,800 liters per month, and with the income from dairy farming, I have managed to pay for my child’s tuition for undergraduate level in the university.”

## PISAgro Participated at Indonesia Philanthropy Festival 2016



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*PISAgro's booth at the IPFest 2016*

PISAgro participated at the first Indonesia Philanthropy Festival (IPFest) 2016 held by the Philanthropy Indonesia Association, an independent nonprofit organization that aims to foster philanthropy in Indonesia so it can contribute to the achievement of social justice and sustainable development. The event was held from 6 October 2016 to 9 October 2016 at the Jakarta Convention Center, Jakarta, to introduce the diversity of the philanthropy institutions in Indonesia, including various programs for public, roles and contributions of philanthropy institutions to achieve 17 Sustainable Development Goals (SDGs) in Indonesia. The theme of this international conference and exhibition is "Fostering Partnership for SDGs".



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*PISAgro's Secretariat team explains about PISAgro's programs and activities to the visitors of IPFest 2016*

Indonesia Philanthropy Festival (IPFest) 2016 has been attended by national and global philanthropy institutions, such as China, Colombia, USA, Philippines, and Singapore. IPFest 2016 involved dozens of philanthropic institutions and philanthropy activists in Indonesia who showcased their contribution in achieving the Sustainable Development Goals (SDGs). The event is held every 2 years and it showcases exhibitions, conferences, talk shows, partnership forum, as well as field trips to several philanthropic projects.



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*Fitrian Ardiansyah (IDH Indonesia Country Director and PISAgro's Board Member) speaking in one of the panel sessions of IPFest 2016*

## The Inauguration of Kampung Panah Merah (Panah Merah Village)



Left to right: Glenn Pardede (Managing Director of PT. East West Seed Indonesia), Sujadi Sadding (Pringsewu Mayor) & wife, Afrizal Gindow (Sales & Marketing Director of PT. East West Seed Indonesia) inaugurate Panah Merah Village in Pringsewu District, Lampung

On 29 September 2016, the Srikaton village in Pringsewu District of Lampung Province unveiled Peta and Endo statues as a symbol of their tribute to EWINDO and named their village Kampung Panah Merah. The event was attended by Pringsewu Mayor Sujadi Sadding, Managing Director Glenn Pardede, and accompanied by Sales and Marketing Director Afrizal Gindow. In addition to the statues, they also announced new street names taken from seed varieties of Cap Panah Merah. These things were hardly a coincidence, but rather a form of appreciation from the Srikaton people. For more than 20

years, they have been growing horticultural plants using Cap Panah Merah seeds.

The Pringsewu mayor also announced that this program should spread to other areas as well. "This cooperation will continue, not only in Desa Sri Katon, but also to areas in Gadingrejo, where 268 hectares have already been prepared for cultivation. It is hoped that farmers would not only have better income from the harvest but also from tourism," he said.

"We are proud to be working with the Pringsewu government to develop Kampung Panah Merah. The development of a special horticultural cluster such as this would strengthen competitiveness and may also be a demonstration and learning center for farmers from other areas" said Glenn.

Horticulture plants are not new for the Srikaton people. In fact, since 1986, the Srikaton people shifted from planting rice paddy crops to horticultural cultivation. Currently, nearly 95% of the village residents devote their fields to horticulture. They grow many varieties of horticultural plants such as peppers, tomatoes, and eggplants within the area of 250 hectares. The profits are promising from planting horticulture: farmers can obtain 60 million Rupiahs by harvesting 2-3 tons from a quarter of a hectare. The profits are larger compared with planting paddies in which the farmers can only get 6 million Rupiahs at the most. However, the difference in income described above is also attributable to the superior technology and innovation provided by EWINDO to the local farmers.

On the sidelines of the event, EWINDO also gave scholarships to successful students in all levels. In addition to scholarships, EWINDO also challenged students to give their ideas/innovations about agriculture in a science contest. These contributions reflect EWINDO's objectives of increasing not only the income of farmers, but the quality of education as well.

## Indofood Celebrates Potato Harvest in Garut



Farmers celebrate their potato harvest in Cikajang, Garut, West Java

August 25, 2016, PT Indofood Sukses Makmur Tbk, celebrated the much anticipated major potato harvest in Cikajang, Garut, West Java. The event, attended by representatives from PISAgr's stakeholders such as the Ministry of Agriculture, Bank BRI, and East West Seed Indonesia showcased Indofood's commitment to help improve the productivity and income of local potato farmers in the region.

"We are very pleased with the outcome of this seasons' potato harvest," said Stefanus Indrayana, General Manager of Corporate Communications - Indofood, "We hope that this partnership will continue to improve the welfare of our farmers and strengthen Indonesia's food security."

Cikajang known as one of Indofood's planting area for their potato project. As the leader of PISAgr's Potato Working Group, Indofood has been partnered up with local farmers in the area to strengthen the supply of Atlantic potato variety as a critical raw material for the company's manufacture of snack products.

The project has used the core plasma scheme as its business model. Besides provided quality seed, Indofood provided counseling, guidance and assistance

in regular and continuous basis. The expected result is to produce good quality potatoes that meet industry standards.

At the event, Indofood awarded H. Nandang Sopadin as one of their best farmers due to his success in increasing the productivity of Atlantic potatoes throughout the years.



Left to right: S. Indrayana (Leader of PISAgr's Potato Working Group, General Manager of Corporate Communications of Indofood), H. Nandang Sopadin (Potato Farmer), Sri Widjayanti Yusuf (Director of Horticulture Seeds - Ministry of Agriculture) harvest potatoes in Garut, West Java

## farmer's story



©Indofood

*“I am very happy about the whole arrangement, and I sincerely hope that I can improve my cooperation with Indofood in the future, so that I can increase my potato price, as well as receive a loan for fertilizers and remedies for my plants,” said H. Nandang Sopadin, successful potato farmer in Garut, West Java*

# Continuing the Legacy of Passionate Farming

## H. Nandang Sopadin - Potato Farmer

Farming, for H. Nandang Sopadin, is like the blood that run through his veins. Born in a farmer family in Garut, West Java, the 62 years old man from Cikajang has been farming since he was a child. Following his parents' footstep, the young Nandang dreamed of becoming an independent farmer. “I have always aspired to be a successful farmer,” Nandang said.

When he married his wife, Iin Rohimah, that dream grew stronger. He wanted to inherit his passion for farming to his children, and raise them from his own farming production. In 1978, Nandang decided to move out from his parents' farm and work on his own land. He currently owns a 10 hectare of farming land in Kalaju Kampong, West Java, where he plants tobacco, garlic, cabbage, chili, carrot, and various types of potatoes (Hemer, Tes, Poran, Ketela, Granola, and Atlantic).

In 1998, Nandang started to plant Atlantic potatoes. On average, he earns 20 tons of potatoes per hectare and a total of 83 tons from four hectares. He sells his potatoes to Indofood. As Indofood's partner, Nandang has the advantage of secured seed supply from

Indofood, as well as being guaranteed that his harvest will be bought by the company.

Nandang joins the farmer community of Cikajang Subdistrict, the Bumi Asi Tiga Cooperation, where employs 40 farmers to work on his farm. His first son, Jajang Nurjaman (36), followed his footstep as a farmer. Jajang currently has his own farm in a total area of 5 hectares. Meanwhile, his second and third sons, Gungun Gunadi (35) and Ade Urip (32), choose to work on their father's farm to assist him.

All of his five children, including his two daughters Siti Nurbaiti (27) and Dini Fitriani (25) are university graduates. All of them are already married and gave him nine grandchildren. Unlike most Indonesian parents, Nandang does not want his children to be civil servants. On the contrary, he wants them to become farmers and entrepreneurs. “I want them to be more successful than me,” commented Nandang.

On average, Nandang's net income as a farmer reached Rp 400 million annually. His success has even enabled him to give a house worth of Rp 800 million and a car to each of his children.

# Building Solutions for the Future



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Opening Plenary Panelists, Grow Asia Practitioners' Workshop 2016, Singapore, 12 - 13 October 2016

In October, more than 100 Grow Asia partners gathered in Singapore to share learnings, challenges and explore solutions to co-develop plans for the future of agriculture. Grow Asia's Reginald Lee, Manager, Country Partnerships (Indonesia and Philippines) shares some of the highlights and commitments from the first Practitioners' Workshop.

On 12 to 13 October, the Grow Asia Secretariat hosted the first Grow Asia Practitioners' Workshop in Singapore, bringing together more than 100 partners from government, private sector, civil society and farmers to share their experiences across crops and countries and co-develop solutions. It was my first Grow Asia event since joining and I looked forward to an immersive two days featuring a range of interactive panel discussions and in-depth breakout sessions designed to showcase successes, facilitate peer-to-peer learning exchange, explore scaling solutions and support the development of country-level plans.

The energy during the two days demonstrated the shared passion of leaders committed to supporting smallholder farmers in South East Asia. Several commitments were made by partners at the Workshop, and a full report of the outcomes and highlights will be available soon.

My personal observations and takeaways were:

## 1. Get government involved

Governments play a critical role in attracting other sectors to a partnership; their visible support unlocks support from others. From the inception of Grow Asia, which was endorsed by the ASEAN Ministers of Agriculture, to the recent formation of in-country partnerships in Philippines and Cambodia, the buy-

### The Panelists of the Opening Plenary are:

1. Indonesia: Harry Hanawi, Director of Corporate Affairs, PT. SMART Tbk
2. Philippines: Ruth Novales, Vice President of Corporate Affairs, Nestle Philippines
3. Myanmar: U Tin Htut Oo, Chairman of Agriculture Group of Yoma Strategic Holdings, Myanmar

**Moderator:** Jenny Costelloe, Director of Country Partnerships, Grow Asia



Representatives of PISA's Members in a group photo with the Grow Asia team and other participants of the Practitioners' Workshop

in of the country's government focuses attention, mobilizes resources and paves the way for supportive policy changes.

## 2. Pay attention to the similarities

It is easy to segment ourselves into country or crop groups, but the live feed of questions and comments at the Workshop reminded us that we all have common themes and challenges. Whether it is access to finance, balancing cooperation and competition, or engaging the younger generation, there are recurring questions that everyone is grappling with. Recognizing and addressing these points of commonality highlighted where Grow Asia can make a great impact in serving our stakeholders.

## 3. Learn from one another

Partners were provided with the opportunity to engage in lively, self-led discussions and brainstorming sessions to collectively come up with solutions and action plans. Truly there is a wealth of knowledge and experience untapped within the working groups and I hope that our recently launched Grow Asia Exchange will continue to foster such interactions in the community. Perhaps this quote from one of our participants sums it up best: "Challenges are similar across commodities and countries—there are lots of good solutions within the community that can be adapted."

## 4. Do well to do good

This phrase came up during the closing Country Partnership Discussion, where partners were debating what it means to be a multi-stakeholder model. A key tenet of Grow Asia's model is to be market-driven, with projects led by the private sector. For these inclusive value chains to be embraced, scaled, and replicated, they need to first make business sense. Only when a business does well will it be able to do good for its stakeholders.

The Grow Asia Practitioners' Workshop 2016 was a unique opportunity to bring together partners from across the five Grow Asia Country Partnerships. More than that, it was an inspiring session characterized by a vision for greater collaboration and the desire to think differently and build momentum for new approaches.

Visit the Grow Asia Exchange at <http://exchange.growasia.org/>

welcome new member



PISAgro warmly welcomes Eragano as our new member. Eragano is a label and program for the sustainable value chain in agriculture from providing farm inputs, micro loan, on farm activity and off taking through ICT (mobile apps) and will possibly collaborate with many of PISAgro working groups. Their aim is to create a world where sustainable farming is the norm, where farmers implement good agricultural practices and manage their farms profitably with respect for people and the planet, and where industry invests in sustainable production and consumers can enjoy and trust the products they buy. Through their program, they provide training and support to farmers in good agricultural practices, access to off taker and micro loan and farm management/education.

## Why is Eragano joining PISAgro?

We would like to explore partnership with the same vision of PISAgro. We are really into collaboration and synergy between several institutions or companies towards increasing farmers' wealth.

## What targets does Eragano wish to achieve by joining PISAgro?

Eragano would like to help at the minimum 5,000 smallholder farmer/year with PISAgro initiative. And create a holistic solution (70% members of the Working Group are participated)



**Partnership of Indonesia's Sustainable Agriculture (PISAgro)**

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