October 2021

SUSTAINABILITY BRIEF

WORKING WITH SCHEME SMALLHOLDERS IN INDONESIA

Balancing between Community Development, Conservation Commitments and Continued Compliance to National Laws

Palm oil development in Indonesia began in the early part of the 19th century and continues to be a major contributor to Indonesia's economic growth. As a crop that could be cultivated by local farmers as well as in large plantations, it is an important strategy employed by the government to drive for economic growth while encouraging inclusivity for community development and poverty reduction.

This was further strengthened when the Indonesian Central Government issued regulation which was enacted in 2007[1], and was then replaced in 2013[2]. This regulation required companies to provide community plantations or plasma up to an area of at least 20 percent of the total concession area which was licensed to the company.

Wilmar International (Wilmar) has always provided for such plasma agreements, even prior to the enactment of the national regulation in 2007. As early as 1994, at the start of its first plantation, PT Gersindo Minang Plantation (GMP) in West Sumatra had agreements with the surrounding communities.

Wilmar continues to work closely with Indonesian smallholders as part of our community development efforts such as with our South Sumatra plasma smallholders as depicted above.

[1] Regulation of the Indonesian Minister of Agriculture No. 26/Permentan/OT.140/2/2007 concerning Plantation Business License Guidelines

[2] Regulation of the Indonesian Minister of Agriculture No. 98/Permentan/OT.140/9/2013 concerning Plantation Business License

The agreement included the identification and mapping of suitable land areas for palm oil development, the provision of planting material and the management of these areas until they settle their development debt and transition into independent smallholders. The plasma arrangements in the Sumatra region were entered into from the 1990s and have been successful as the communities have benefited from an increase in their standard of living and wealth creation.

In the early 1990s, more options were available to companies to enable the establishment of the plasma schemes as large amounts of rural areas were still uncultivated. Hence, companies like Wilmar were able to develop plasma smallholder areas together with local communities to surpass the 20 percent requirement associated to the plantation area (as seen in Chart 1), which later came into effect.

It is important to note that at the time, the standards required for the selection of land was less restrictive, namely only that the area had to be:

a) located outside of the company's licensed area;
b) derived from community's own land; and
c) has clear ownership status.

PLANTATION	PLASMA AREA COMPARATIVE TO WILMAR'S PLANTATION (%)
Tania Selatan	64
Musi Banyuasin Indah	158
Buluh Cawang - A	79
AMP Plantation	56
Pritama Muliajaya	87
Gersindo Minang Plantation	58
Permata Hijau Pasaman	138

Chart 1: Percentage area for plasma comparative to associated plantation area for Wilmar in Sumatra

Environmental and social requirements that was applicable at that time was the cursory environmental impact assessment and community agreements, as this was prior to the establishment of the RSPO, and the key references from 2013 on forested and peat areas.

As the palm oil industry evolved with global demands for more sustainable production, by 2013 the adoption of the "No Deforestation, No Peat and No Exploitation" (NDPE) policy by Wilmar added a new dimension to its commitment in achieving its plasma obligations.

Due diligence for new development of oil palm

The due diligence required prior to any new development, delineated for either a company's own plantation or for plasma smallholders, in addition to the earlier three criteria of:

a) being preferably located outside of the company's licensed area
b) derived from community's own land
c) has clear ownership status

The current due diligence standard includes:

d) Satellite imagery of the proposed area, with analysis of the land cover of the area from 2005 onwards
e) Overlaying of the proposed area on top of the governmental peat maps

These initial steps help determine if the proposed area is potentially suitable for plasma oil palm development. Once the area is deemed to be potentially suitable, additional studies would have to be conducted to ensure that the area is not on peat, and is not an area with high conservation value (HCV) or with high carbon stocks (HCS) using the internationally recognised toolkits[3] designed for this purpose.

In addition to these environmental studies, there are also additional guidelines for the implementation of free, prior and informed consent (FPIC) during the discussion with the plasma cooperatives as well as during the assessment of HCV and HCS areas.

A smallholder picking loose fruits

Wilmar recognises that the adoption of the NDPE policy is an important step to ensure that there is greater accountability and transparency as well as reducing adverse impacts to the environment and its stakeholders. Unfortunately, the added criteria for selection of land for plasma development is often an ongoing source of conflict with the local communities and local government – both who want to see land be developed quickly into oil palm. It is these conflicts – between development or maintaining NDPE policy commitments - that is sometimes painted as companies trying to avoid fulfilling plasma obligations.

[3] https://hcvnetwork.org/library/common-guidance-for-the-identification-of-high-conservation-values/
http://highcarbonstock.org/the-hcs-approach-toolkit/english-toolkit-chapters-1-7/

Finding Suitable Land while Maintaining NDPE Policy Commitments

The biggest challenge in the identification of land for additional plasma development is in the ensuring of compliance to NDPE policy requirements and Indonesian legal regulations, such as the moratorium on peat development[4]. Since the push in Indonesia of commercial plantation development in the late 1990s and early 2000s, many communities have since sold their own lands (often via the *Ganti Rugi Tanam dan Tumbuh*[5] mechanism) which are adjacent to their villages to be developed by commercial plantations. This has resulted in some community members no longer having any land within their own control that could be entered into plasma development agreements. This, coupled with the fact that there are many other plantation companies competing in the same area for plasma development, as was outlined in a 2017 Wilmar sustainability brief "*Plasma Obligation versus Conservation Objectives – How do We Strike a Balance?*"[6].

One of the other challenges related to identifying suitable land is related to the conflicting demands of local communities and their right to determine the use of the land which is technically owned by the communities. Many communities have yet to understand the requirement to conduct the HCV / HCS assessment or that companies like Wilmar are not able to develop areas with forests into oil palm. In these instances, Wilmar cannot accept these lands as part of our plasma programmes as they would mean an immediate non-compliance to our commitments to no deforestation and no development on peat. In order to manage these resulting conflicts, we have had to adopt several strategies to manage community expectations on plasma development.

Participative mapping exercise conducted in consultation with local communities

[4] Peraturan Pemerintah Republik Indonesia Nomor 57 Tahun 2016 tentang Perubahan atas Peraturan Pemerintah Nomor 71 Tahun 2014 tentang Perlindungan dan Pengelolaan Ekosistem Gambut. https://www.iopri.org/wp-content/uploads/2017/03/PP-NO-57-TAHUN-2016-ttg-GAMBUT.pdf

[5] Ganti Rugi Tanam and Tumbuh (GRTT) is an agreement where communities with cultivated areas and its crops are compensated by a company for the value of the crops and the rights of the land. The amount of the compensation is dependent on the negotiated agreement. (Peraturan Pemerintah Republik Indonesia Nomor 26 Tahun 2021 tentang Penyelengaraan Bidang Pertanian).

[6] https://www.wilmar-international.com/docs/default-source/default-document-library/sustainability/resource/sustainability-brief-plasma-obligation-versus-conservation-objectives-how-do-we-strike-a-balance.pdf

Case Study: Central Kalimantan

A strategy tested in our Central Kalimantan estate, was to facilitate plasma using non-palm oil crop, which was in the planting of rice – more specifically "hill paddy" or dry paddy, which is specific traditional variety of rice that does not rely on flooded paddy fields. Wilmar had identified an area of 120 ha for the purpose of the cultivation of rice, as a means to provide alternative livelihoods, food security and could be implemented without risk of non-compliance to our NDPE policy. However, as the site which was selected was on the floodplains of Mentaya River, the project was not successful as the site then became unsuitable for the planting or cultivation of both oil palm and rice (dry paddy).

There were also instances in Central Kalimantan where a site which was identified, having been assessed and deemed compliant to all of Wilmar's requirements –then turned out to have been gazetted as Forest Estate[7] under the Forestry regulation, putting the area legally off limits.

These instances are not uncommon in Indonesia where areas gazetted under the Forestry regulation have since suffered degradation due to years of encroachment and fires[8]. In such cases, the argument can be made as to whether these areas would be more suitable to be exchanged for areas which has been delineated for conversion but still have standing forests with that of degraded areas which are still legally delineated for forest protection and production. There have been past projects[9] which had suggested similar land swap ideas but these projects have shown only limited success.

The contest for more land area in Central Kalimantan is one of the primary reasons that many of our estates in this region have ongoing challenges in trying to add plasma development areas. However, this has not deterred us in ensuring that we are able to provide benefits for the communities that have successfully established plasma with Wilmar, by focusing on increasing productivity and yields.

Working with smallholder communities that are willing to put in the work and effort, we have been able to assist our plasma smallholders in Central Kalimantan to achieve yields of up to 25.5 tons of Fresh Fruit Bunches (FFB) per hectare per year, which is higher than the nationally calculated average yield of 13.1 tons of FFB per hectare per year for smallholders[10]. The higher productivity also means higher income for smallholders, especially as the price of FFB for smallholders is pre-determined by the government based on a set Oil Extraction Rate (OER)[11], which is usually higher than the normal market price as set by individual mills.

As the purpose of the plasma smallholder scheme is to provide for community development and wealth creation, the focus should not only be on the total area size of plasma smallholders, but also in the productivity of the given area and increasing the level of commitment from the communities in managing their own areas. This is especially critical even as available land area is becoming scarce due to an increasing population and the influx of competing land uses such as mining.

[7] Forest Estate or Kawasan Hutan is a legal term for an area designated for many uses, including biodiversity conservation, community benefit, selective logging or even non-forest uses such as plantations. The Forest Estate is managed by the Ministry of Forestry.

[8] https://www.wri.org/insights/swapping-land-produce-sustainable-palm-oil-indonesia#recommendations

[9] Anne Rosenberger et. al. October 2013. Issue Brief: How to change legal land use classifications to support more sustainable palm oil in Indonesia. World Resources Institute.

[10] Molenaar et al. September 2013. Diagnostic Study on Indonesian Oil Palm Smallholders. IFC. https://www.rspo.org/file/Diagnostic_Study_on_Indonesian_Palm_Oil_Smallholders.pdf

[11] Oil Extraction Rate (OER) is used to assess palm oil mill performance. The OER is defined as the percentage of oil recovered from the oil palm fresh fruit bunches processed in the mill.

Case Study: West Kalimantan

In West Kalimantan, all but 2 of our estates operating in that landscape have exceeded expectations on the total area of plasma development. In fact, 6 estates in this region go beyond the 20 percent as stated by the national regulation.

The West Kalimantan success may be attributed to the fact that the regions of Sambas, Landak and Pontianak are landscapes that has been more heavily cultivated prior to the arrival of Wilmar by the local communities. In one instance in the region of Sanggau, the final area which was able to be cultivated by Wilmar was reduced to about 16 percent from the total area earmarked in the original *Ijin Lokasi*[12].

This reduction is due to the fact that the areas around the estates are already occupied and cultivated by the local communities. Many of these areas are planted with forest rubber or other non-timber forest produce, and the community have been able to independently obtain an income from their lands, they are less inclined to surrender these areas to the company in exchange for the plasma programme.

However, new legal restrictions can again cause complications. For example, we had an instance in one of our estates (which was cultivated on peat in the early 2000s) where an area of about 600 ha was earmarked to be developed for plasma and Wilmar was in the process of conducting its due diligence on the suitability of the site.

While there was willingness from the communities to surrender the area to be used for plasma development, the land is situated on peat and designated by the Indonesian government for peat restoration in the *Peta Indikatif Penundaan Pemberian Izin Baru*[13] (PIPPIB) map. This effectively meant that it would have been illegal to develop plasma on the land, and the original plan had to be discontinued. This change in plan was not well received by the communities, as they questioned the rights of the company to reject their decision to assist them in developing an area which belongs to them. Fortunately, the community eventually accepted that the government had earmarked the area to be protected.

Indonesian Sustainable Palm Oil (ISPO) audit on smallholder

[12] Ijin lokasi or Location Permits, are provisional land permits awarded to plantation companies to start development of agriculture prior to the land boundaries being finalized, and prior to the issuance of the formal land title, the *Hak Guna Usaha* (HGU)

[13] The PIPPIB refers to the Indonesian federal government's indicative map that identifies regions where new land permits were not being awarded due to conservation and peat protection concerns https://geoportal.menlhk.go.id/webgis/index.php/en/map/pippib

Complex Challenges Remain

The case studies highlighted here provide a sample of some of the practical challenges in trying to fulfil the government's aspirations and targets on smallholder and rural development via the plasma programme in the different regions in Indonesia. The challenges are complex and there seems to be no blanket solution available, especially related to the following:

a) The right of the community for self-determination versus a company's NDPE policy. In many cases faced by companies like Wilmar that have NDPE commitments - the question of the legal right of a community that wants to develop its own land with oil palm is raised. In Wilmar's case, many of the decisions have gone into ensuring that all oil palm development carried out by our own operations and that of our suppliers must be compliant with our policy. Unfortunately, this will mean that we cannot develop plasma smallholdings in lands that would be non-compliant.

b) The challenge of finding alternative crops to oil palm which would be as economically viable and beneficial for the community. As was highlighted in the Central Kalimantan example, the initiative by the company to embark on rice planting was not met with enthusiasm or success. To many of these communities, oil palm remains the most competitive commodity to provide for wealth creation and poverty alleviation. Additionally, the logistics and facilities for processing the product is already provided by the company whereas should there be other crop or products, it may require additional investment by the community and may not be expertise that Wilmar can provide; and

c) The continuous challenge of finding suitable land which could be planted with oil palm which is not already owned and developed by other communities or companies and is compliant with our NDPE policy will continue to shrink going forward into the future. The demand for resources will continue to intensify as the population grow or with new demand for other form of resources such as mining. The contest for resources and area will then continue to push into forests and ecosystems that are not delineated as protected area but are still providing critical habitats for important species, such as Wilmar's own conservation areas.

Indonesian smallholder harvesting fresh fruit bunches

Moving Forward

The matter of community development is complex as it touches on issues such as a community's rights for self-determination, government's policies, the need for the protection and conservation of critical habitats over a shrinking and finite resource.

There is a need to shift the focus on being totally dependent on area size alone as being the basis of community development success. It is equally as important to start looking at providing support for plasma smallholders to increase yields and productivity over a smaller area. It would require a greater commitment on the part of the company and the community themselves, which would enable greater income to be generated over a smaller area.

We have demonstrated that when a smallholder is diligent in applying agronomic best practice such as fertilizing, weeding, thinning of flowers and maintaining a regular harvesting schedule, etc. the production yields are markedly higher and this means that it is possible for smallholders with smaller areas to also generate more than sufficient income. However, the productivity levels could only be achieved when the plasma smallholders pursue the best agronomic management systems and practices consistently.

The global demand for palm oil companies to safeguard peatland and forest areas will continue to create some conflict with some communities, as it is seen as an imposition of a standard which they do not necessarily agree with. A company's voluntary commitment to protect forests and critical habitats for rare, threatened and endangered species will require further support from the government to ensure that it would be safeguarded in perpetuity.

It is likely that there may not be a single "silver bullet" to address all these issues. However, perhaps the best way forward is to recognise the complexities on the ground, and open a dialogue between the stakeholders to find a compromise for each situation, while building strategies that moves away from total dependency to size of a land area.

An Indonesian smallholder loading fresh fruit bunches on a wheelbarrow