



PALM OIL SMALLHOLDER REVITALIZATION

The Case of Golder-Agri Resources

06/2021



Executive Summary

The Smallholder Oil Palm Rejuvenation Program or Peremajaan Sawit Rakyat (PSR), launched by Indonesian President Joko Widodo in 2017, works in collaboration with oil palm-based companies in Indonesia to increase the productivity of independent smallholder plantations while steadily pursuing the reduction of deforestation.

At the Responsible Business Forum in Jakarta in 2018, Franky Widjaja, Chairman and CEO of Golden Agri-Resources Ltd (GAR) emphasized the necessity to help smallholders to be part of the solution to sustainability:



“Sustainability can only be achieved when there is a balance between economic opportunity, environmental protection, and social welfare. If you don’t look after the well-being of the people, then they will not look after the environment. We have an obligation to help smallholder farmers be part of the solution.”

Within the framework of its overall sustainable policy, the GAR Social and Environmental Policy (GSEP), GAR has actively participated in smallholder revitalization programs, including the PSR program. Smallholder farmers can benefit from the PSR program in a number of ways, including a) gaining land certification, b) quality seeds that generate higher yields, c) lands managed professionally through good agricultural practices (GAP), d) gaining ISPO certification to strengthen market access, and e) increased income through higher yields.

2017
PSR program was launched

✓ Increase smallholders productivity

✓ Reduce deforestation



However, the government targets set for replanting have not been met. Obstacles have included the capacity of independent oil palm smallholders, issues of land legality, access to bank credit, and seedlings, the inability of farmers in submitting and reporting, implementing databases and mapping, and allocating funding from the Palm Oil Fund Management Agency.

Confronted with these challenges, the government has taken several measures to accelerate the PSR Program. It has also acknowledged the importance of the role of the private sector in partnering with smallholder cooperatives to make for effective replanting.

In 2017, GAR was the first company to support the government-led initiative and established a dedicated PSR division to drive the programme including facilitating smallholders’ access to funds from the national Palm Oil Fund Management Agency (BPDPKS), as well as from banks. The PSR-GAR collaboration is a 7-step process that is supported by close communication with the community involved. Its stakeholder-oriented closed-loop business model epitomizes a community of purpose and the “social license” to operate and grow that is so essential for a business with long time horizons, high global market exposure, and diverse stakeholders, both domestic and global.

Introduction

A number of studies have indicated Indonesia’s success in substantially lowering its rate of deforestation. According to Government of Indonesia data, the annual rate of deforestation in Indonesia decreased from its highest level of 3.5 million hectares a year during 1996-2000 to slightly more than one million hectares a year from 2000 to 2006, with further decreases of 650,000 hectares of land in 2015-16 and 480,000 hectares in 2016-17.

Tightened government regulations including a permanent moratorium on forest clearing for plantations and logging, forest management reform, and prosecution of companies illegally clearing forests have been the main drivers of the decline. Other factors include increased transparency, partly with the help of real-time deforestation monitoring, and collaborative programs involving government, private sector, and community, such as fire-free village programs and jurisdiction-wide sustainability programs. Recognizing the continuing need for further deforestation reduction efforts, the significant decline thus far has allowed the strengthening of focus toward sustainable palm oil management.

One area of government focus is in the rejuvenation or replanting of smallholder palm farms that are expected to reduce the need for new agricultural land. Studies show deforestation from large-scale plantations in Indonesia is declining, but that deforestation outside of concession areas is still ongoing, albeit in limited area, driven mostly by smallholder farmers. The primary reason fueling the increase is the smallholders’ need to make ends meet by finding more land to plant additional crops, given their lack of knowledge on how to maximize the efficiency of their existing land.

The Smallholder Palm Oil Rejuvenation Program or Peremajaan Sawit Rakyat (PSR) was established to assist smallholder farmers to transition to increasing productivity through replanting on existing land rather than by expansion. Launched by Indonesian President Joko Widodo in 2017, the government program works in collaboration with palm oil-based companies in Indonesia to increase the productivity of independent smallholder plantations whilst continuing to reducing deforestation.

Golden Agri-Resources (GAR) and Accelerating the Government Smallholder Palm Oil Rejuvenation Program (PSR)



Indonesia is the world’s biggest producer and exporter of palm oil. Smallholder palm oil plantations have increased from 3,125 ha in 1979 to more than 6 million hectares in 2019, accounting for about 41 % of the total palm oil plantations in Indonesia, which makes it an important sector of the industry. However, its productivity per hectare lags behind that of the larger plantations. Smallholders often achieve yields of 10-15 of fresh fruit bunches (FFB) per hectare compared to the 20-25 tons per hectare achieved by their larger industry plantation counterparts. The far lower yields are caused mainly by smallholders’ inefficient farming techniques and the use of weak seedlings. Smallholder farmers also tend to have limited knowledge and funds available to invest in better technology and on the rejuvenation of trees.

At the Responsible Business Forum in Jakarta in 2018, Franky Widjaja, Chairman, and CEO of Golden Agri-Resources Ltd emphasized the necessity to help smallholders to be part of the solution to sustainability:

“Sustainability can only be achieved when there is a balance between economic opportunity, environmental protection, and social welfare. If you don’t look after the well-being of the people, then they will not look after the environment. We have an obligation to help smallholder farmers be part of the solution.”

Corporate assistance to smallholders can be applied in the areas of a) good agriculture practice training, b) good agriculture practice application and their business management, including assistance in applying for sustainable palm oil certification, c) access to markets, and d) access to loans to help in adopting better practices and to buy quality inputs, such as high yielding seeds.

Palm oil companies in their partnership programs have demonstrated, with varying degrees of success, that smallholders can adopt more responsible agricultural practices leading to RSPO or ISPO certification, deliver better yields and secure better incomes.

Palm oil companies benefit as well from higher quality outputs from their supply chain, including, for example, using smallholder certification to meet their sustainable sourcing commitments for palm oil. As Gopul Shah, Director, Corporate Treasury, and Structured Trade Finance, Golden Agri-Resources expressed it, “Corporates understand that sustainability is an important differentiator and a competitive advantage - in their journey to be a partner of choice and create a thriving business of repute and integrity. Within the framework of its overall sustainable policy, the GAR Social and Environmental Policy (GSEP) , Golden Agri-Resources (GAR) has actively participated in smallholder revitalization programs, including the PSR program.



41%

Palm oil production in the hands of smallholders

Good agriculture practice training

Good agriculture practice application

Corporate Assistance to Smallholders

Access to markets

Access to loans

Golden Agri-Resources (GAR)

Golden Agri-Resources Ltd (GAR) is the second-largest palm oil plantation company in the world.

Founded in 1996, it is focused on palm oil production including cultivating and harvesting of palm oil trees; the processing of fresh fruit bunch (FFB) into crude palm oil (CPO) and palm kernel; merchandising and refining CPO into value-added products such as cooking oil, margarine, and shortening. GAR has several subsidiaries, including PT SMART

Tbk - listed on the Indonesia Stock Exchange since 1992. GAR has been listed on the Singapore Exchange since 1999 and as of 31 March 2020, GAR’s shares were 49.48 percent publicly owned and 50.52 percent owned by Flambo International Ltd, an investment company owned by The Widjaja Family Master Trust. It is an Indonesian multinational, with operations in China and India.



The Government Smallholder Palm Oil Rejuvenation Program (PSR)



The Smallholder Palm Oil Rejuvenation Program is a government replanting program aimed at increasing smallholder palm oil plantations productivity in partnership with palm oil-based companies.

Replacing old or unproductive plants with new higher-yielding crops is expected to increase smallholder productivity. The PSR program would initially replant 20,000 hectares out of an estimated total of 2.4 million hectares of smallholder palm oil plantations in need of replanting. Indonesia has a total of 11.9 million hectares of palm oil plantation, mostly located on Sumatra and Kalimantan. Smallholder plantations currently yield about two tons of crude palm oil (CPO) per year. Using better seeds, yields can increase to eight tons per year within 2 years.

In 2017, the government was able to replant 14,790 hectares of old plantations, or 71% of its target. In 2018, it increased the replanted area to 33,842 hectares, which only represented just 18% of its higher target that year. From January to October 2019, it again doubled the replanted area, to 68,427 hectares, which was 38% of its target. In 2020, the government was only able to replant 67,018 hectares or 37% of its target.

Before 2020, only those smallholder farmers participating in the PSR program had to comply with Indonesian Sustainable Palm Oil (ISPO) certification requirements. Introduced in 2011, ISPO certification was mandatory for palm oil companies but voluntary for smallholders. The certification requires that land is legally owned, does not violate boundaries of forest areas, and that farmers use good agriculture practices. However, in March 2020, a regulation signed by President Joko Widodo updated the ISPO certification that made it mandatory for smallholder farmers (those with farms smaller than 25 hectares) to seek certification within five years.

PSR Program Benefits for Smallholder Farmers



Smallholder farmers can benefit from the PSR program in a number of ways, including:



While there is not much research on the specific outcomes of PSR program outcomes, there are some indications that outcomes have been positive. As one example, in 2018, members of the Mulus Rahayu Village Cooperative in Siak, Riau, completed the inaugural harvest from the latest replanted trees that doubled the yields of the previous harvest. In April 2016, 135 smallholder members of the cooperative began replanting as part of the PSR program. In December 2018, the first harvest yielded increased from 0.7 tonnes to around 1.5 tonnes per month.

However, despite the experience of the Siak cooperative as well as other anecdotal evidence, the benefits to be gain from participation in the program have not quite resonated with the smallholder farmers in general. The government targets set for replanting have not been met. In 2020, for example, the realization of the PSR program only reached 94,033 hectares, well below the 180 thousand hectares/year set by the government.

Obstacles to the Implementation of the PSR Program

The capacity of independent palm oil smallholders to undertake the PSR program has been a major concern. According to, Heri Susanto, Chairperson of the Indonesian Sustainable Palm Oil Network (JAPSBI):

“ The lack of palm oil farmers’ knowledge on group management and the legal ownership of their plantations have hampered their participation in government programs such as the smallholder palm oil rejuvenation program and ISPO/RSPO certification. We feel that obstacles such as the lack of training on the PSR program for independent smallholders are one of the common obstacles. The farmers often feel that they don’t know how to get program assistance. ”

Other obstacles facing farmers included issues of land legality, access to bank credit, and seedlings.

The inability of farmers in submitting and reporting, or implementing databases and mapping was also a recurrent problem, as was the allocation of funding from the Palm Oil Fund Management Agency.

The Palm Oil Fund Management Agency (BPDPKS)

Indonesian government levy in 2015

CPO exports
\$50
per metric ton

Processed palm oil products export
\$30
per metric ton

The levies collected by the Palm Oil Fund Management Agency (2015-2019)

Rp 47.2 trillion
71% biodiesel producers
<5% small farmers

In 2015, the Government through the Ministry of Finance set up the national Palm Oil Fund Management Agency or Badan Pengelola Dana Perkebunan Kelapa Sawit (BPDPKS) to support the replanting of certified palm oil trees. The agency collected, managed, and channeled palm oil funds to increase the performance of the palm oil sector in Indonesia.

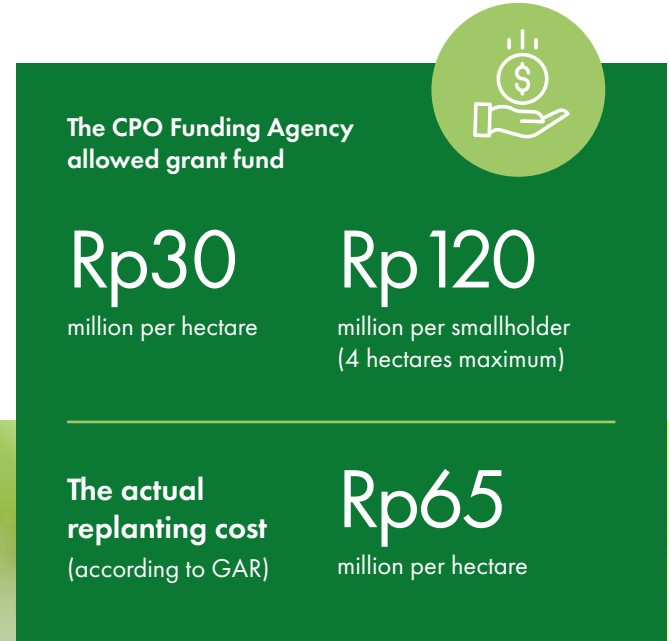
The replanting program is financed through the CPO levy mechanism. In 2015, the Indonesian government introduced a USD 50 per metric ton levy on CPO exports and a USD 30 per metric ton levy on exports of processed palm oil products. However, these levies were disproportionately used to finance the government’s major biodiesel subsidy program rather than to the PSR replantation program.

The export levies are collected by the Palm Oil Fund Management Agency and subsidized long-term credits are allocated through several state banks. Since the funding agency began in 2015 up until 2019, it had collected IDR 47.2 trillion (USD 3.3 billion) in revenue, but had given 71% of it to biodiesel producers – and less than 5% to small farmers for the replanting program.

At the end of 2020, the Agency had a balance of funds of IDR18 trillion rupiahs (USD 1.3 billion) and will collect an additional IDR 45 trillion (USD 3.1 billion) from the levies in 2021. The areas to be funded are (1) the replanting of palm oil trees, (2) infrastructure; (3) human resources development, (4) product research & development program, and (5) biodiesel development.

Other than the funding from the Palm Oil Fund Management Agency, the government also financed the PSR program by channeling small business subsidized small credits (kredit usaha rakyat or KUR) through the state banks, BRI, BNI, and Bank Mandiri. The government allocated a total of IDR 50 trillion (USD 3.5 billion) through the KUR subsidy scheme bearing subsidized interest rates of 6% per annum (previously 7% p.a.) to support the palm oil smallholders, agriculture farmers, and traders,

Challenges in Financing



The Palm Oil Fund Management Agency allows a grant fund in the amount of IDR. 30 Million (USD 2.1 thousand) per hectare for a maximum of 4 hectares or a maximum of IDR 120 million (USD 8.4 thousand) per smallholder. According to GAR, the actual replanting cost is around IDR.65 million/hectare (USD 4.5 thousand) or about twice the grant amount provided by the funding agency. This funding gap has become a sizeable hurdle that requires farmers to seek other sources of financing to cover the shortage, either from their savings or through bank financing.

However, most smallholders have difficulties in accessing the KUR credit scheme due to its strict requirements such as holding land certificates, forming a cooperative or joining an existing cooperative, provide proof that the land is not located in a disputed area, and a recent requirement to have a tax ID number, which will make it more difficult to get the bank credits as the low-income level of smallholders makes the possession of an individual tax ID number a burden.

Accelerating the PSR Program

Confronted with these challenges, the government has taken several measures to accelerate the PSR Program. For example, it reduced the conditions for eligibility, from 8 conditions to 2 (land legality and cooperative membership). It also increased grant funds, as well as improving access to small business KUR loan funds. The government also acknowledged the importance of the role of the private sector in partnering with smallholder cooperatives to make for effective replanting.

Golden Agri-Resources (GAR) Role in Accelerating the PSR program

In 2017, GAR was the first company to support the government-led initiative, committing to target 10% of the government commitment to replant 2 million hectares.

The company established a dedicated PSR division to drive the programme, offering farmers support ranging from land mapping (their land is often scattered and planted with commodities other than palm oil) to timeline planning. A key aspect of the support was in facilitating smallholders' access to funds from the national Palm Oil Fund Management Agency (BPDPKS), as well as from banks.



PSR activities for smallholders conducted by GAR



Since November 2017, GAR has assisted 976 smallholders to replant an area of 2,647 hectares. While only a fraction of the company's target of 200,000 hectares by 2029, the groundwork has been established. As of November 2020, GAR has conducted PSR activities for smallholders in South Sumatra, Jambi, and Riau.

GAR conducted comprehensive sustainability assessments before engaging the smallholders, to prioritise replanting for plantations that meet ISPO/RSPO requirements. Sometimes, smallholders or communities are resistant to the partnership because they are used to managing their plantations. GAR field officers carry out several rounds of dialogues with farmers, public figures, religious and indigenous leaders, local governments and NGOs, to address concerns and get approval, before proceeding with the replanting.

The PSR-GAR Collaboration Process

01

The first step in the process is to identify existing parcels of land in a 30-kilometre radius of a palm oil mill that is suitable for replanting. The land must meet all legal, environmental, and social criteria so that smallholders can apply for sustainability certifications in the future. The smallholder's land must be in the right area—not in a forest or peatland and not in a moratorium or dispute. It must also follow regional spatial planning.

Limiting environmental parameters include:

- Peatland Ecological Function (Fungsi Ekologis Gambut/ FEG)
- Peatland Hydrological Area (Kawasan Hidrologis Gambut/ KHG)
- Minister of Forestry Decree on Forest Areas and Waters (SKHP map)
- Indicative Map for Moratorium on New Licences (PIPIB)
- Map for Legal Boundaries of Core/Plasma Plantation Estates
- Riparian Areas
- Land System and Land Suitability (LSS)
- Regional Spatial Planning (RTRW)

02

Public consultations are carried out to get the community's response to the PSR programme. The company conducts dialogues with smallholders, community and religious leaders, indigenous communities, farmer economic institutions, village and local governments, NGOs, universities, and others. A crucial component in these early stages includes ensuring Free, Prior, and Informed Consent (FPIC) is honoured. This means respecting the smallholders (and the surrounding communities), consulting them on every decision, and considering their needs. Communities voice their concerns that, if satisfied, could lead to consent to continue the replanting process. At this stage, the communities choose their representatives to assist in further sustainability assessments.

03

Basic socio-economic data and information with local communities, such as income level, common employment types, education levels.

Their responses are reviewed using three main perspectives:

Sociological perspectives on community's culture, history, conflict potentials, and mapping, community's structure, prominent characters mapping, land ownership, public perception, and expectation, as well as mapping of community's resistance and accommodation.

Demographic perspectives from local government and village government on population, religion, ethnicity, and livelihood.

Economic perspectives consist of economic condition, source of livelihood, agricultural pattern, land productivity, and potential of natural resources.

04

The next step is the sustainability assessments for the identified piece of land. A Land Tenure Study, Participatory Mapping, Social Impact Assessment, High Conservation Value (HCV), and High Carbon Stock (HCS) assessments are undertaken. The company also submits the necessary environmental permits such as SPPL, UKL-UPL, and AMDAL.

During these assessments, the company keeps in close contact with the community members and disseminates relevant information to them, as part of its Free, Prior, Informed, Consent (FPIC) protocols.

05

The company then organises door-to-door visits with smallholders to collect these data as part of the PSR programme application:

- Land documents (SHM/SK T/SKGR/Girik)
- Smallholder documents (registration form, statement letter, identification card, family register, and certificate of marriage)
- Cooperative documents (legal documents for establishment and business operations)
- Partnership documents (partnership agreement and Prospective Farmer and Prospective Land (Calon Petani Calon Lahan/CPCL) document)

06

Land measurement is a follow-up step after a smallholder completes his/her registration and supplies all the required documents. This step is conducted with the landowner, boundary farmer, and a witness, for identification of land boundaries, in compliance with regulations. The land is measured and mapped in terms of its location, delineation of boundaries, and total area, to prevent social conflicts arising from land disputes.

07

The final few steps in the programme's journey are to establish the partnership and funding with banks before the replanting begins.

GAR also facilitates the establishment of cooperatives or farmer groups (Gabungan Kelompok Tani or Gapoktan) that strengthen the smallholder's position in the partnership.

In terms of funding for the PSR programme, GAR has established a partnership with banks and the Palm Oil Fund Management Agency (BPDPKS). The funding is agreed upon by three relevant parties—the company, smallholder, and cooperatives or farmer groups before replanting. High replanting costs put a heavy burden on the smallholders, so GAR assists them with the process of accessing government funding through BPDPKS. The company works closely with Bank Rakyat Indonesia (BRI) to ensure that replanting costs can be covered. This includes compensation funds provided by the company through bank loans for smallholders for IDR 500,000/ha/month for four years to help them support themselves before the palm oil trees reach their maturity stage.



The Importance of Close Communication

Rina Estelita, a Sinar Mas CSR Officer and formerly a PSR Sustainability Officer emphasized the importance of close communication, collaboration, and cooperation in the PSR processes :

“What we’ve learnt from our experience is that close communication is essential in the FPIC process. We need it to educate and convince communities that sustainability assessments are important.

It also helps in managing expectations and timelines. For example, when we first started FPIC processes for the Smallholders Replanting Programme, it coincided with the launch of HCV-HCS Integrated Assessments. It was challenging because the integrated assessments were new and we were one of the first companies to conduct them. The time needed to conduct them took up to a year as they had to be reviewed and approved by HCV-RN[1]. We had to communicate closely with communities to manage their expectations about when replanting would be able to start, due to potential delays from the assessment.

These conversations can sometimes be difficult, especially when the areas are designated by the communities and company as areas that we cannot replant in because of peat depth, or because it is located on a riverbank. But they must be done, and it must be continuous. We ensure a constant exchange of information, to understand community concerns throughout the process and address them accordingly.

Finally, when all assessments are done, a public consultation will be held where the results are shared. These assessments may not be common for smallholders; they take a long time to do and the results sometimes may not be as expected. However, we need to advocate these processes to ensure that the `smallholders and community’s social and environmental liability is kept to a minimum in the future.

By enacting these practices with farmers now, we ensure that they can enter certification schemes later on, which benefits the farmers, company, and entire industry.”

PSR: Community of Purpose

The Government of Indonesia’s lead in promoting the PSR program for multi-pronged purposes can be solidified by the private sector and community’s participation.

Since the catastrophic 2016 forest fires, there has been a strong commitment to reduce deforestation and to increase the production of palm oil. Large-scale replanting programs for smallholders are therefore of high priority. Initiatives such as the establishment of the CPO fund and the expansion of the KUR loan program to provide low-interest replanting loans to farmers are reflections of that commitment.

The private sector’s role in taking the initiatives to match the government’s commitment towards this inclusive approach is crucial to achieving the targeted outcome of bridging smallholder farmers’ access to financing, supporting them in understanding and practising good agricultural practice (GAP), thereby improving productivity and welfare, and most importantly achieving the ultimate goal of commodity-related deforestation reduction. Collective action is the key required to reach those objectives.

Through their ongoing commitment to support the PSR replanting program (among other initiatives) as well as the dedication from their team on the ground, GAR incorporating its stakeholder-oriented closed-loop business model that epitomizes a community of purpose.

As Gopul Shah also noted, “The palm oil plantation sector has seen its fair share of controversy, and as one of the largest producers, we at Golden Agri-Resources (GAR) treat sustainability as an ‘enterprise management strategy...balancing profitable growth, improving risk-adjusted returns on investment and helping us to become a ‘partner of choice’ to our stakeholders.”

The linkages between the community, government, financial sector, and GAR in the PSR program exemplifies collaborative partnership. Embracing such partnerships ensures that GAR retains the “social license” to operate and grow that is so essential for a business with long time horizons, high global market exposure, and diverse stakeholders, both domestic and global.

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The Tropical Forest Alliance

TFA is a global multistakeholder partnership platform initiated to support the implementation of private-sector commitments as well as to amplify demand-side engagement in major economies towards the transition to reduced deforestation commodity supply chains. Hosted by the World Economic Forum, TFA partners with 170+ organizations - companies, government entities, civil society, indigenous peoples, local communities and international agencies. TFA operates regional platforms in Latin America, West and Central Africa, China, and Southeast Asia.

IPMI Case Center

The IPMI Case Center, established in February 2016, represents the distinguishing character of the IPMI International Business School, the pioneer in adopting the case method approach in Indonesia. Benchmarking itself to cases from the Harvard Business School, the Center aspires to produce a continual flow of new and relevant cases of such caliber, made possible through its various strategic partnerships with a wide array of leading organizations on topics currently critical to the business world as well as to the future leaders in IPMI's various management programs.

The Partnership for the Business Cases

TFA Southeast Asia partners with the IPMI Case Center to co-produce evidence-based business and investment cases primarily to catalyze the realization of multistakeholder's shared-responsibility commitments. Objectively developed with references to relevant working groups, the cases are to reflect interpretations and implementation of sustainability values of companies, alongside the lessons learnt and key takeaways for others in the industry to refer to and be inspired by. The cases aim to recognize initiatives already taken as well as to present real opportunities for actors across commodity supply chains to join hands in pursuing a Forest-Positive shared agenda. As important, the case approach aims to encourage leadership despite the multiple controversies surrounding the shared agenda of combating climate crisis and co-creating long-term sustainable innovative solutions that fit both economic and environmental considerations.

Contact

Contact the Tropical Forest Alliance Secretariat at tfa-sea@ibcsd.or.id

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It is our hope that this study could inspire scaled sustainability commitment and further collective actions across all stakeholders in our journey towards deforestation free commodities supply chain, other forest-positive shared agendas, and eventually our pursuit towards net zero.

Case Writer

Feraldi W. Loeis
Deputy Director, IPMI Case Center

Editor

Ahmad D. Habir
Director, IPMI Case Center

Rizal Algamar
Southeast Asia Regional Director, TFA

Milka Camelia
Southeast Asia Private Sector Lead, TFA

Publication Coordinator

Leonardo Fachry
Southeast Asia Operation Support, TFA

