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Market Transformation by Oil Palm Smallholders

SPKS
Serikat Petani Kelapa Sawit

Indonesian Oil Palm Smallholders Union
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Oil Palm Smallholders Union

PREFACE

SPKS or the Indonesian Oil Palm Smallholders published the book titled "Market Transformation by the Oil Palm Smallholders" to focus on an alternative plantation management in relation to oil palm re-planting. This is very big concern to the majority of SPKS members, as the umbrella of replanting procedure, which is the Minister of Agriculture's regulation no. 33/2006 on the revitalization of the plantation, hardly leaves a room to remain independent and innovative under the centralized plantation management or one-roof management. Meanwhile, independent replanting requires large capital investment which the smallholders do not possess. Yet, smallholders' access to financial institutions is still very limited, whilst not many alternative funding agencies exist around them.

In fact, the Oil Palm Smallholders today are part of progressive and forward-thinking generation, who are likely to take challenges in the development of Good Agriculture Practices in a broad sense. SPKS smallholders now have been thinking of market transformation, where oil palm growers and consumers shared the responsibility to create and maintain equilibrium of the People, Planet, and Profit (3Ps) of the oil palm production and distribution. An alternative arrangement for oil palm business that is unconventional, innovative, and inventive is here described by SPKS as Market Transformation by the Oil Palm Smallholders.

This book provides concrete fresh, experience-based ideas and strategies the oil palm stakeholders can use to answer the concerns on sustainable palm oil production and distribution. The book is designed for plantation companies and smallholders, cooperatives and banks, administrators and market players, and all who are interested in working within the real Sustainable Palm Oil principle. The ideas in this book provide suggestions that will help in this broad range of market transformation.

Chapter 1 "Questioning Oil Palm Benefits to Smallholders" analyzes how the impacts of oil palm plantation to the smallholders are. The chapter argues with the challenging road to sustainability practices in

the palm oil business and assesses the former partnership arrangements between plantation companies and the smallholders, as well as the gaps and troubles left behind.

Chapter 2 “The Prosperity of Oil Palm Smallholders vis á vis the Popularity of Palm Oil Worldwide” provides an overview of the fieldwork. The chapter deals with the productivity of oil palm plantation in Indonesia, including the palm oil production cost and qualification of the yields, such as sortation, “K” index requirement, and procedure of credit settlement. This chapter presents some data from SPKS regional offices to give the readers complementary inputs on what happens on the ground.

Chapter 3 “Smallholders-based Revitalization of Oil Palm: Key Challenges & Opportunity” delivers an introduction to the Alternative Replanting Scheme for Smallholders - SPKS breakthrough to the government’s regulation on the Revitalization of Plantation. This chapter puts the government’s concept and SPKS idea side by side on how to best revitalize the smallholders’ palm oil plantation.

Chapter 4 “Promoting Independent Smallholders - An Alternative to Indonesian Oil Palm Business” intensifies SPKS concept of unconventional, innovative, and inventive business arrangement, which will bridge the smallholders to the Sustainability Market. In this chapter SPKS is promoting participatory schemes of oil palm business, where smallholders are protected and empowered to play more active role in the palm oil trade.

We hope that this book will provide a resource to advocate for the best possible alternative and sustainability practices for palm oil business and commodity market. Our goal is that the ideas in this book will help support smallholders’ protection and empowerment as mandated by the law no. 19/2013, while also nurturing the sense of innovation and independence of the smallholders towards sustainable business entity.

Bogor, November 2013

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CONTENT

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Chapter I

Questioning Oil Palm Benefits to Smallholders

Smallholders in Indonesia are spread in roughly 4.3 million ha land. The majority manage their plantation independently. About 3.1 million ha oil palm is managed by independent smallholders. The rest is bound in partnership scheme with plantation companies. The smallholders' agricultural competence is mostly inherited from the farming practices of their parents and exchange of knowledge with other community members.

Smallholders manage less than 25 hectares land. In general, Indonesian smallholders only manage two hectares land per household. This is not suitable for supporting the standard livelihood in Indonesia. Hence, in order to increase their income, the farmers must manage larger plantation independently.

Financial support for the smallholders is made possible by banks only in exchange of a guarantee, such as their land certificate; or by the cooperative where smallholders are members. However, this is not as simple as it should be. Often, independent smallholders face challenges relating to the grace period that is usually one year; while in the case of oil palms productive period is started after the fourth year of the development. In West Kalimantan, a Credit Union (CU) is established to grant easier access to financial support for the smallholders. Hopefully more support and funding are given to independent smallholders to develop their oil palm business.

With regard to policy and cooperation between smallholders and other party, it is hoped that the future partnership will regard smallholders as significant actors in the oil palm business. Having said that, no more only one mainstream policy persevered for the smallholders where they have no alternatives to develop themselves and be independent. There must be alternative collaborations and initiatives to facilitate both smallholders and private sectors to jointly grow with their own oil palm business.

Market stability must be established. Oil palm growers have to remain of good judgment and intelligent in responding to global issues, such as the climate change and social conflicts, which are very significant to Indonesia. The smallholders are extremely disadvantaged by market instability that triggers unstable FFB price. Irregular FFB price is one of the biggest smallholders' concerns, because they are enormously depending on the good price of the FFB.

The government of Indonesia is expected to be innovative and inventive for breakthroughs in the plantation development program in Indonesia. This program has to support, assist, and monitor the smallholders to better contribute to the Indonesian economic growth and the future Indonesian Sustainable Palm Oil.

A. The Battle of Sustainable Palm Oil

The challenges faced by the Indonesian palm oil and the climate change are special concerns to Indonesia. In APEC 2013 meeting in Bali, Indonesia, it was obvious that palm oil was hardly accepted to be listed in the Environmental Goods.

On the other hand, climate change has become global concerns and it is not detachable from the palm oil. Social-related issues such as food security, social conflicts, and the loss of biodiversity are built-in challenges in the development of oil palm plantations in Indonesia.

Sustainable Palm Oil for a, both RSPO (Roundtable on Sustainable Palm Oil) or ISPO (Indonesian Sustainable Palm Oil) are existing for quite a while to promote the Sustainable Palm Oil in the whole producing countries of palm oil. Still, social and environmental hurdles are not easily dealt with.

One of the barriers to conquering the problems is market dependency on the corporates in the palm oil's supply chain. The smallholders' role in the supply chain is to produce palm oil in their small plantation and deliver the yields to palm oil processing mills.

These are motives for the government and the business players to create new platform and redesign the management system of oil palm plantation in Indonesia.

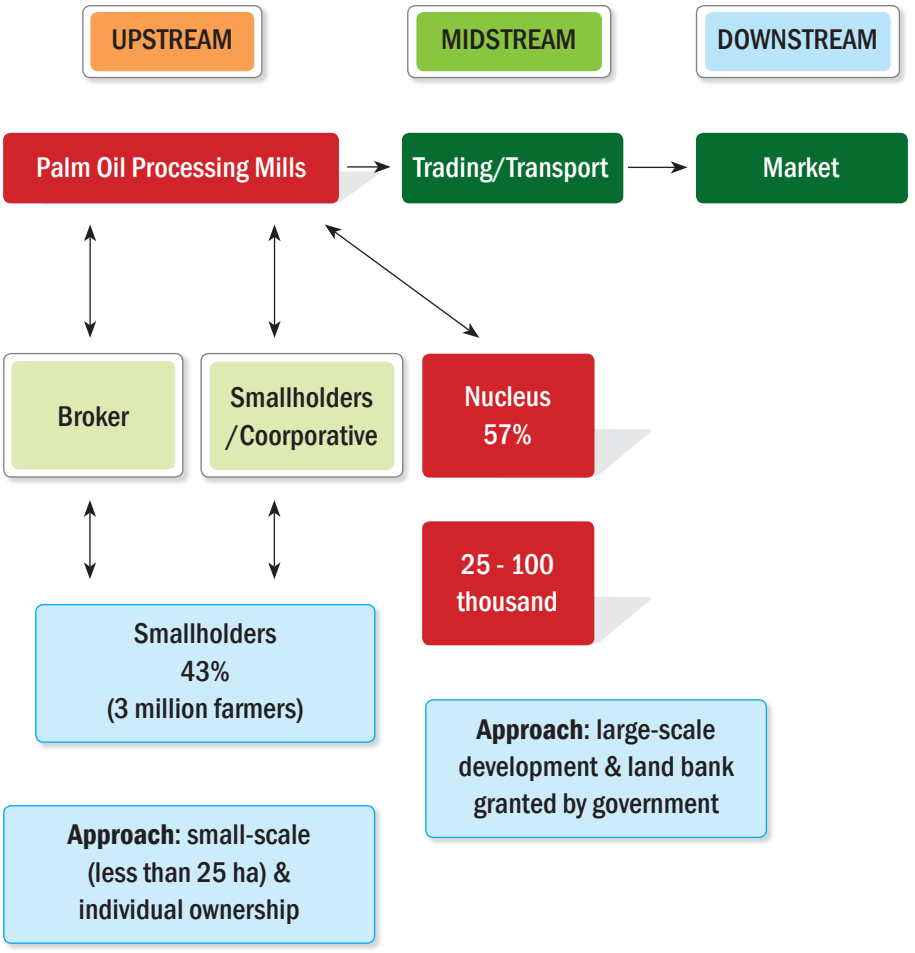
B. The Road of the Palm Oil Supply Chain

The diagram below explains that the role of the smallholders finish at the FFB delivery to the mills. Further stage of the palm oil supply chain is organized and carried out by the oil palm company with the supply chain network.

The environmental and social problems occur at the very beginning of the large plantation development. Recurring problems are related to the development approach; when the company obtains the location permit and or the preliminary permit. Quite the reverse, the smallholders' plantation development is small-scale approach, namely less than 25 ha. By and large the smallholders develop oil palm plantation by utilizing their own land property in proportion to their capital availability.

While large plantation company is the cause of large scale business, which needs a lot of laborers, large land property, and the social and political security mechanism. Smallholders, in contrast, create the shared and participatory social security among themselves.

Chart 1: Supply Chain Pathways



C. Challenging the Partnership Schemes

It is noteworthy that almost in all centralized plantation management, social conflicts between the companies and smallholders or community have been arising. SPKS monitored that out of 20 companies in Sumatera and Kalimantan that are implementing centralized management policy; all of them are in conflict with smallholders.

The assessment on Nucleus Estate Smallholders (NES) partnership schemes, or well known as Perkebunan Inti Rakyat (PIR), will allow us to study the comparison between the partnership schemes and to assess whether the centralized scheme nowadays is the right substitute of NES, or just different name, but the same practices.

NES (PIR) scheme has been assessed and studied many times by many parties. There are weaknesses; hence, improvement is essential. No one knows in certain, what was the reason of the transformation from NES to the later partnership programs. However, key in the renewal of the partnership scheme is through an evaluation, and that improvements -supposedly- made based on lessons learned in the previous schemes. Then new partnership scheme is launched to complement the weaknesses of the earlier programs.

SPKS writes down a few notes and lessons learned on the partnership scheme. It is important for the government to resolve impeding issues in the oil palm cultivation in Indonesia accordingly, so the right remedy will suggest itself as solution to the problems faced by the smallholders.

1. Gaps between productivity of the plantation and the processing mills capacity

The gaps in oil palm business comprise the production capacity of the plantation and the processing mills. In other word, loads of Fresh Fruit Bunch (FFB) produced is not necessarily equivalent to the FFB processed by the mills. Long line in the oil palm plantation to transport the oil palms to the processing mills is habitual; the consequence is exceeded processing time of the FFB.

Besides, standing in the line to deliver FFB to the mill is also not free of charge. This ineffective procedure should be improved by the government. Lacking business procedure is affected by rapid transportation of the smallholders' yields.

Chart 2: National palm oil production and processing mills capacity

No	Province	Size of non-productive crops (Ha)	FFB Production (Ton)	Processing capacity needed (ton FFB/ hour)	Volume (unit)	Current Processing Capacity (Ton FFB/hour)			Less ( ) Over + (ton FFB /hour)
						Installed capacity (TPS)	Employed Capacity (TPK)	idle	
1	Aceh	65809	1316180	329	15	445	357	88	(241)
2	North Sumatera	71403	1428060	357	84	2969	2464	505	+148
3	West Sumatera	65388	1307760	326	10	270	270	0	(326)
4	Riau	217406	43481120	1087	51	2225	2093	132	(955)
5	Jambi	111193	2223860	556	13	365	333	32	(524)
6	South Sumatera	134036	2680720	670	20	2025	900	125	(545)
7	Bengkulu	30571	611420	153	6	220	125	95	(58)
8	Lampung	24265	485300	121	8	213	213	0	(121)
9	Bangka Belitung	73126	1462520	265	6	90	90	0	(365)
10	West Java	637	12740	3	1	20	20	0	(3)
11	Banten	777	15540	4	1	30	30	0	(4)
12	West Kalimantan	89931	1798620	450	13	550	485	65	(385)
13	Central Kalimantan	52954	1059080	265	5	150	83	67	(198)
14	South Kalimantan	64013	1280260	320	7	290	230	60	(260)
15	East Kalimantan	49186	983720	246	7	250	150	100	(146)
16	Central Sulawesi	22925	458500	115	1	30	30	0	(115)
17	South Sulawesi	32297	645940	161	5	215	196	19	(142)
18	South-East Sulawesi	11102	222040	55	0	0	0	0	(55)
19	Papua	19169	383380	96	3	90	90	0	(96)
Total		**1136188**	**61856760**	**5579**	**5579**	**9447**	**8159**	**1288**	**(4391)**

Source: General Directorate of BP2HP, Ministry of Agriculture, 2002

Notes:

TBM: Tanaman Belum Menghasilkan (non-productive crops)
TPS: Kapasitas Terpasang (installed capacity)
TPK: Kapasitas Terpakai (employed capacity)
( ): Kekurangan Kapasitas Unit Pengolahan (lacking capacity of the processing unit)
+: Kelebihan Kapasitas Unit Pengolahan (exceeding capacity of the processing unit)

Sources: SPKS Tanjabar

2. Road infrastructure and transport

Ineffective FFB transport is major issue. This is due to awful road infrastructure, including the non-existence of extra transportation to deliver the smallholders' yields. The consequence is that stacks of FFB are not transported immediately; hence, decreasing quality of the palm oil caused by delayed FFB delivery.

Ineffective FFB transport is affected by poor quality of road infrastructure. When it rains, trucks difficultly go through the road to pick up the FFB. At times, smallholders have to spend extra cost to rent special trucks that can drive on axis road and pick up the FFB. Otherwise, the FFB will hang around until it is possible to transport them to the mills.

The poor roads are closely related to the conversion of the oil palm plantation from the companies to the smallholders. Plantation com-

panies rarely have constructed linked infrastructure for the scheme smallholders consistent with the standard, such as poor roads essential to transport the FFB. The plantation companies have not spent maximum of the bank loan to build the infrastructure for the scheme plantations.

3. Maintenance of the plantation

The plantation companies have not trained and supervised on the maintenance of the oil palms to the smallholders prior to the conversion. After the conversion, smallholders are no longer monitored to maintaining their plantation.

Smallholders' typical and traditional maintenance includes clearing the site of the plantation and removing tree stumps, as well as maintenance of the roads. One week of every month is dedicated by the smallholders for the maintenance of the plantation.

Sources: SPKS Sanggau

There are agronomy supervisors from local government agencies dealing with plantation issues (in Bahasa Indonesia, they are called Petugas Penyuluh Lapangan or PPL); however their monitoring and assistance are not effective. The supervisors are not sufficiently available compared to the existing plantation sites. At times, the work coverage of one agronomist involves two sub-districts equal to 10,000 hectares plantation.

While in a partnership scheme, the company does have bigger role in supervising the smallholders. The government regulation has instructed the company to accomplish the supervisory to smallholders; however this too does not run well.

4. Distribution of fertilizers

Low oil palm productivity is a result of minimum application of fertilizers. The fundamental issue is irregular distribution of and the high-priced fertilizers. The distribution chain of fertilizers is long-drawn-out; hence its selling price gets very high when arrives at smallholders' level.

While the government does not have accurate database on the fertilizers demand of the smallholders, the government applies quota. Unfortunately, this will lead to a mismatch between demand and supply of fertilizers among the smallholders.

Negative impacts as an outcome of ineffective fertilizers' distribution include:

- Manuring accomplished only once a year;
- Inapt dosage of fertilizers because of distribution inadequacy;
- An opportunity for retailers mafia of fertilizers;
- Mistreatment of liquid fertilizers as well as abuse of manures without proper information and advice.

The above problems are factual and happen at the smallholders' level. Usually the government offers solution by drafting a definitive plan of

fertilizers demand of each farmer groups (RDKK or rencana definitive kebutuhan kelompok). This is less effective and does not resolve the real problem of the fertilizers' distribution. In the future there must be a supply chain approach to overwhelm this critical issue.

5. Seedlings Issue

Seedlings are another critical issue, as they grow and yield for the next 25 years. Planting fake seedlings will lead to detrimental production and productivity of the FFB. Here is further list of seedlings problems faced by smallholders:

- High-priced seedlings and not easy to get;
- A number of smallholders utilize unspecified seedlings;
- A number of retailers sell less expensive seedlings without certified sticker;
- Seedlings producer is centralized in a specific location, such as North Sumatera.

6. Lower CPO quality than international standard

One of assessment indicators of the Indonesian palm oil is the quality of the crude palm oil (CPO). Low-priced CPO is a result of the CPO product that is below the market standard. One of the reasons is old-fashioned technology used in the processing mills.

International CPO market applies the standard of Deterioration of Bleachability Index (DOBI). The minimum DOBI value must be 1.8; a DOBI Index less than 1.8 indicates poor quality oil, and a DOBI index beyond 3 indicates high quality oil. If Indonesian CPO exports to international markets are below the standard, the products will not be competitive; hence, affect the purchase volume.

DOBI is an analytical procedure for the quality control for measuring the oxidation level of palm oil, which is a sign of the absorbance ratio of palm oil dissolved to unsaturated fatty acid. It is essential to any

palm oil mill to extract CPO with excellent quality and stability, particularly on oxidation.

According to DOBI, there are 5 groups of CPO:

- DOBI < 1.8: bad quality
- DOBI 1.78 – 2.30: lower quality
- DOBI 2.30 – 2.92: good quality
- DOBI 2.93 – 3.23: better quality
- DOBI >3.24: high quality.

Indonesian CPO export destinations mainly demand the minimum DOBI index of ≥2.8. The value (DOBI 2.8) is determined by international CPO markets with reference to Codex Allimentariurs Commission.

Compared to Malaysia's, Indonesian CPO's DOBI is far below. Currently the DOBI of Indonesian CPO is mostly under 2.8, which is below standard. Some CPO experts explained that the low DOBI of Indonesian CPO is because of inefficient processing technology of the FFB.

Sources: SPKS Tanjabar

The old harvesting technology, also in the processing mill, lead to the low quality of Indonesian CPO. The sales price of the low quality CPO does not only affect negatively onto government, exporters, plantation companies, but the smallholders too. Moreover, the low quality adds to the other problems in the oil palm business that automatically decreases the marketability of Indonesian CPO products.

7. Compulsory 20% of the nucleus plantation allocated for scheme smallholders

Recently we learned that the revision of the Minister of Agriculture's decree no. 26/2007 did not change the composition of land allocation for the smallholders. Let us compare with the new order in 1986, when the policy no. 333/1986 instructed that the composition of nucleus and smallholders is 40:60, whilst the management of the scheme plantation is held by the smallholders.

The 20% plantation for the smallholders is compulsory; but the realization of the policy is not doing well. Referring to the audit of the Ministry of Agriculture, out of 300 plantation companies, 60% or 180 companies have not fulfilled the obligation. 2011, 44 companies in East Kalimantan constructed scheme plantations (plasma); however it is far below expectation, which is only 10% or 41.982 ha out of 412.076 ha nucleus.

Smallholders have been underprivileged as the plantation companies prefer to grow their investment than develop the community, thus grow with the community. In contrast, to build an oil palm industry, 80% of the community land must be relinquished for the nucleus, with the objective that 20% of the total estate will be allocated for the smallholders.

Conflicts between nucleus and the surrounding smallholders are mainly caused by this inequality. Smallholders are disadvantaged; as they have invented 80% of their land banks to the nucleus, they only

have 20% of the large piece in return. Occasionally, in the case of communal land, the 20% are dispersed to a large number of smallholders; hence one smallholder can only manage less than 2 or 1 hectare only.

What could be worse than this: In compensation of 80% relinquished land, smallholders -with 20% hectares shared land area- have to pay bank loan for the construction of their small plantation. Subsequently during the conversion, the oil palms in the plantation are not at their best quality, while the smallholders have to pay the bank loan which is pledged to be in the good standard of plantation as determined in the government policy on plantation business licensing.

The construction period is another issue disputed by the people. Having surrendered their land to the nucleus, the smallholders are unclear when their plantation will be developed. SPKS studied some conflicts and learned that in some cases, the plantation for the smallholders is constructed just after 4-7 years, when the company finishes the construction of the nucleus.

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The above observations are related to the partnership scheme, including centralized plantation management (one-roof policy). Hence, the government must seriously evaluate the whole planting procedure in order to increase the palm oil productivity, in particular of the smallholders, as promised by the Agriculture and Trade Ministers in various national and international negotiation fora.

Foreign actors have been campaigning against Indonesian palm oil industry. How does Indonesia best respond to the campaigns against Indonesian CPO? Within global pressures on the Indonesian palm oil and emerging oil palm plantation in the other part of the world, Indonesia must design strategic actions to remain competitive by eliminating on farm and off farm problems.

SPKS believes that it is more strategic to respond by bringing forward

the facts that the problem is not only environmental, but social and economic issues as well. However, encouraging and strengthening the smallholders would reduce the allegation, as the smallholders do not clear forests to grow oil palms. Involving smallholders in each of the government programs at the same importance of the corporates helps the unification of the oil palm actors.

The whole situation explained earlier has always been sources of conflict between nucleus and smallholders. The conflict resolution takes time and very slow, sometimes ends up with deeper and larger tensions. For this reason, the initiative to strongly promote smallholders to play more significant role becomes more meaningful and substantial. Independent smallholders will reduce social, economy, and environmental gaps of the oil palm plantation practices.

With the reference of the above, it is expected that the government will draft and design new policies in order to increase the smallholders' productivity and improve the partnership scheme. Centralized management is not the right solution of partnership with the smallholders. Centralized management will create even worse problems when the oil palm plantation is managed by a plantation company.

These are constructive and pragmatic reasons to support an alternative for smallholders' plantation business management.

Chapter II

The Prosperity of Oil Palm Smallholders vis á vis The Popularity of Palm Oil Worldwide

Palm oil is the most potential Indonesian commodity in the international trade. Yields from around 11.2 millions ha of oil palm plantations in Indonesia (Sawit Watch 2012) dominate the supply to global markets. Indonesia's main export destinations include China, India, Pakistan, Europe and USA.

CPO is essential ingredient to a lot of domestic and foreign industries, from food products, cosmetics, heavy and light industries, to chemical industry. The CPO market demands keep increasing in almost the last 10 years that Indonesia is targeting the 2013 CPO export volume will be 18 million tons.

Today, about one century after oil palms is cultivated for commercial purposes in March 1811. Indonesia is the largest CPO producer in the world and will likely remain in the future. The Indonesian Ministry of Agriculture has set the target of oil palm plantation development by 20 millions ha until 2020; while the target of CPO production by 2020 is around 40 million tons.

Having started since long time ago, only in 1980 the Indonesian new Order made the first move to integrate the community into the oil palm plantation. The first program launched by the government was Nucleus Estates and Smallholders (NES) through Transmigration, or locally known as PIRTRANS (Perkebunan Inti Rakyat Melalui Program Transmigrasi). This program was an extension of the preceding project funded by World Bank, Nucleus Estates and Smallholders, where the

local community and landless transmigrants were helped to establish, own, and manage their own oil palm plantation. Participating citizens of PIRTRANS managed 2 ha oil palms per household; they are additionally granted 0.70 ha for yard and 0.30 ha for housing. This partnership program was well-known as Plasma Program, and the smallholders were called plasma farmers.

Further oil palm plantation development programs created by the government in 1990s, which was the primary credit for cooperative members or well known as KKPA (Koperasi Kredit Primer Untuk Anggota). This program was replaced in 2006 with the revitalization of plantation, which is endorsing the one-roof plantation management or centralized plantation management, known locally as Manajemen Satu Atap. The cooperation scheme between the plantation company and the smallholders is called partnership or kemitraan in Bahasa Indonesia. This partnership program is well-known as Plasma Program; the plantation is called plasma estate, and the smallholders are plasma farmers. Looking at the characteristic of the aforementioned programs, one thing remains the same: smallhodlers manage only 2 ha each.

By and large, the Minister of Agriculture's decree No. 26 year 2007 on the plantation business licensing regulated that the smallholders obtain 20% of the company's oil palm plantatable land. In practice, smallhodlers only get 2 ha/household or less. Moreover, the construction of the 20% plasma plantation has to take place at the same time as the construction of the other 80% of the company's.

SPKS has monitored the practices of partnership schemes in 5 provinces in Indonesia. Schocking result was discovered that if smallholders would like to get 20% of the company's plantation land size, they have to relinquish in advance the land equivalent to 20% land area to be planted by the company. However, if smallholders relinquished more than 20% land, the extra will automatically be owned by the nucleus estate and for the road infrastructure.

When fuel price increases, people demonstrate to get higher wages. How can oil palm farmers demand for higher FFB price to get higher income, if the market determines the CPO price?

(Jazuri, 43, oil palm farmer in Tanjabar, Jambi)

Unlike the new order during President Soeharto's period, at that time smallholders obtained a minimum of 60% for the plasma plantation. This means, the company obtained only 40% for the nucleus estate (reference: SK. Mentan No. 333/kpts/KB.50/6/1986).

As a result of the limited plantation area of 2 ha or less, in some locations plasma farmers grow oil palms in their yard.

Some plasma farmers turned out to be more capaleble to develop the oil palm plantation independently, with the minimum estate of 25 ha. However, the regulation says that if the planted area is more than 25 ha, the farmer should report to the local government and propose for an IUP (plantation business license). Then he may develop his own plantation without entering into a partnership scheme with private sector.

This chapter will elaborate on the condition and the livelihood of oil palm smallholders in Indonesia. It is very obvious that large plantation companies have benefitted utmost from this commodity business; what about the smallholders? While in reality, out of 100 oil palm producers in Indonesia, 43% are smallholders.

This is the motivation to increase the bargaining position of the oil palm smallholders in Indonesia, so they can enjoy the prosperity generated by the palm oil, as the original objective of the agriculture development of this sector through the NES and PIRTRANS.

It is about time that smallholders have to be independent and respected with the same appreciation as large-scale oil palm producers or the private sectors. No one has the right to manipulate and take advantage of the oil palm smallholders and for their contribution to the national economic growth. Accordingly, everyone has the obligation to maintain the relations between oil palm actors, including plantation companies, smallholders, the government at local and national levels, environmental watchers, traders, etc.

A. Oil Palm's Productivity

The oil palm smallholders' livelihood is quantified based on their income. This is affected by internal and external factors. Internal factors include productivity of the plantation, agronomy condition of the plantation, transportation cost of Fresh Fruit Bunch (FFB), and general. External factors are related to market demands and restrictions, credit amount and settlement scheme, type of partnership scheme, global CPO price, operational cost of the processing mills, and the FFB sortation activity by the processing mills.

Monthly fluctuating FFB price is influenced by instability of global CPO price. January 2013, global CPO price was US$ 810, February 2013 was US$ 885, and March 2013 was US$ 870 per metric tons. Meanwhile, FFB price in Sanggau, West Kalimantan in January 2013 Rp. 94.81, February 2013 Rp. 1,188.63, March 2013 Rp. 1,307, April Rp. 1,293.28, and May Rp. 1,207.77. FFB price in other province such as Jambi is different than Kalimantan.

The chart below describes different FFB price between scheme smallholders and independent smallholders in Tanjung Jabung Barat, Jambi, within the period of January - March 2013:

Chart 1: FFB selling price of Scheme and Independent Smallholders

No	Date	Price for the Scheme	Date	Price for Independent
1	1 - 10 January 2013	1.170	1 -13 January 2013	930
2	11- 24 January 2013	1.315	14 - 24 January 2013	1.030
3	25 - 31 January 2013	1.320	24 - 31 January 2013	1.080
4	1 - 7 February 2013	1.345	1 - 7 February 2013	1.110
5	8 - 19 February 2013	1.365	8 - 10 February 2013	1.210
6	20 - 28 February 2013	1.385	11- 21 February 2013	1.260
7	1 - 7 March 2013	1.415	22 - 28 February 2013	1.300

Source: SPKS Tanjung Jabung Barat, 2013

Based on the data above, world's fluctuating CPO price had significantly affected the FFB price. Besides, the FFB price fixed by the processing mill for scheme smallholders was about Rp. 100 – Rp.200 different than the price from brokers to independent smallholders.

Fertilizers Problem

Productivity of oil palm plantation depends highly on manuring. Shortage of or high price fertilizers will affect the smallholders' manuring schedule as well as application dosage. Subsidized fertilizers (urea) costs Rp.125.000-150.000/pack, while KCL fertilizers RP. 250.000-Rp.300.000/pack. Oil palm plantation needs manuring three times per year; otherwise its productivity will be at a low level.

There are three different types of fertilizers, such as for the trunks, for the foliages, and fruits. Timely manuring and in the measured quantity will boost oil palm productivity. For oil palms older than 10 years, the palms need 250 Kg/ha of each fertilizer. In Jambi markets, particularly Tanjung Jabung Barat district, the price of fertilizers varies. Below is the selling price of fertilizers for the farmers in the Tanjung Jabung Barat, Jambi.

Chart 2: Different Price between Subsidised and Non-subsidised Fertilizers

No	Fertilizers	Non-subsidised price/50Kg	Subsidized price/50Kg
1	ZA	185.000	125.000
2	MOP	295.000	
3	RP	111.000	
4	KIESRIT	131.000	
5	BORAT	441.000	
6	Dolomit	50.000	
7	SP 36		135.000
8	NPK Phonska		175.000

Source: SPKS Tanjung Jabung Barat, 2013

B. The Production Cost of Palm Oil in Indonesia

General Directorate of Plantation of the Indonesian Ministry of Agriculture has set a target 36 tons/ha/year FFB production or around 3 tons/ha/month. However, the target is deemed unrealistic based on the current productivity, when Smallholders produce yields 14 tons/ha/year and plantation company 19 tons/ha/year.

Pic.1, Source: SPKS – roads infrastructure are significant to the safety of FFB transportation

Smallholders have to purchase the services of labourers for harvesting the yields, and the laborers to carry the yields from the estate site to the collecting point (TPH). In Sanggau, a harvesting labourer is paid Rp. 2500 per one tree, and carrying labourer gets Rp. 1500 per tree from the estate site to the TPH.

Additionally, smallholders pay FFB transportation cost from the collecting point to the mills. The payment depends on the road distance; short distance costs Rp.120/Kg and long distance costs Rp.200 - Rp.500/Kg. If the yields were below 1 tons, or in between 500 Kg – 1000 Kg, the highest value (1000 Kg) will be the payment basis. It will cost more if the condition of production roads is very poor and hardly travelled by normal trucks. If this is the case, smallholders have to charter a special vehicle to transport FFBs through the awful roads. Also, when the delivery to the mills takes longer than usual, the farmers have to pay Rp. 50,000/night extra to the driver.

In Tanjung Jabung Barat, harvesting service is compensated Rp. 100,000 - Rp. 125,000 / tons, while for FFB transportation costs around Rp 55,000 - Rp. 65,000/tons.

C. The Qualifications of Oil Palm

Physical condition of each plantation influences its productivity. In a partnership scheme, in particular NES or PIR, plasma plantation is developed by plantation company. Transfer of plasma plantation management from the company to smallholders takes place in the fourth following year. Previous to the transfer, the company and smallholders sign a credit transfer agreement. In a partnership scheme this point is called conversion of plasma plantation. At this level, it is common that the smallholders raise complaints regarding the condition of the plantation for conversion.

Complaints are usually due to poor roads infrastructure and fewer sum of oil palms planted in the estate than standard practices. Accord-

ing to the General Directorate of Plantation on the standard of a good plantation, the road infrastructure must be provided by the plantation company, solid condition and rock-strewn. There must be 128 oil palms planted in 1 ha. Usually the conversion failed if the roads for transporting FFB are in poor conditions and when the oil plams grown in 1 ha were less than 128.

On credit transfer agreement, farmers raise objections on the value of credit settlement designed by the company. For instance, the construction of roads infrastructure and supply of seedlings are actually covered in the construction credit. The plantation company must not additionally trouble the smallholders with this infrastructure loan.

2011, SPKS studied the assessment prior to the conversion of oil palm plantations in 7 districts in Sumatera and Kalimantan. SPKS found out that 60% of the scheme plantations were not developed in accordance to the technical standard of Good Agriculture Practices (GAP). Otherwise, it will decrease the smallhodlers' income from 10 – 15 oil palms per each harvest.

Sortation

The earlier difference of opinions gets more complicated by the procedures in the mills, such as sortation process and operational fee obligation. The sortation of FFB aims to select full-grown from unripe FFB, and to decide on good-quality from the less-quality FFB.

The sortation is specifically regulated in the Minister of Agriculture's decree no. 17/2010 on the FFB pricing mechanism. Likewise, the "K" index representing the operational fee of the CPO processing mills has decreased the smallholders' earnings. Sortation hampers good corporate practices, and it is not appropriate.

2009 SPKS Sanggau (West Kalimantan) and SPKS Tanjabar (Jambi) have investigated two different mills and discovered that sortation takes place during night time, which is not on the transparent basis of

FFB actual quality. Even though the farmers harvest at the right time, sortation reduces the farmers' projected income.

The charts on the FFB sortation documented by SPKS Tanjabar (Jambi) below describe the smallholders' income loss due to sortation by Indo-sawit Subur mill. January until October 2011 Sawit Kita Cooperative in Lampisi village lost Rp. 1,630,372.096. Likewise, Karya Kita Cooperative lost Rp. 1,790,409.722 due to sortation in the Indosawit Subur mill.

PRODUKSI TBS TAHUN 2011 KUD SAWIT KITA
DESA LAMPISI KECAMATAN RENAH MENALO KAB TANJAB BAR JAMBI

No	Bulan	TBS/Kg				Harga	Nilai Sortasi
		Brutto	Sortasi		Netto		
			Kg	%			
1	Januari	3,192,940	129,459	4,05	3,063,481	1,828	236,651,052
2	Pebruari	2,834,560	89,068	3,14	2,745,492	1,940	172,791,920
3	Maret	2,654,730	71,799	2,70	2,582,931	1,980	142,162,020
4	April	2,985,700	88,588	2,97	2,897,112	1,876	166,191,088
5	Mei	2,869,860	76,246	2,66	2,793,614	1,681	128,169,526
6	Juni	3,867,910	112,393	2,91	2,755,517	1,702	191,292,886
7	Juli	3,531,510	110,228	3,12	3,421,282	1763	194,331,964
8	Agustus	3,373,820	116,780	3,46	3,257,040	1,550	181,009,000
9	September	3,869,920	140,680	3,64	3,729,240	1,548	217,772,640
10	Oktober						
Jumlah rata-rata		29,180,950	935,241	2,9	28,245,709	1763,1	1,630,372,096

Pic 2: Productivity Data of Sawit Kita Cooperative, Tanjabar, Jambi

DATA PRODUKSI TBS KUD KARYA KITA TAHUN 2011
DESA TANJUNG BENANAK MERLUNG KAB TANJAB BAR JAMBI

No	Bulan	Tonase/Kg				Harga	Nilai (Rp)
		Brutto	Sortasi	%	Netto		
1	Januari	2,113,320	77,286	3,7	2,036,034	1,828	141,278,808
2	Pebruari	1,977,440	88,617	4,5	1,888,823	1,940	171,916,980
3	Maret	2,135,960	79,390	3,7	2,056,570	1,980	157,192,200
4	April	2,311,970	88,554	3,8	2,223,416	1,876	166,127,304
5	Mei	2,850,790	111,105	3,9	2,739,685	1,681	186,767,505
6	Juni	2,895,770	106,578	3,7	2,789,192	1,702	181,395,756
7	Juli	2,467,840	89,255	3,6	2,378,585	1,763	157,356,565
8	Agustus	3,595,700	169,310	4,7	3,426,390	1,550	262,430,500
9	September	4,472,720	236,398	5	4,236,322	1,548	365,944,104
10	Oktober					0	0
Jumlah		24,821,510					1,790,409,722

Pic 3: Productivity Data of Karya Kita Cooperative, Tanjabar, Jambi

"K" Index

It was mentioned earlier that there is additional income deduction that is the operational cost of the mill, which in the government policy is termed as "K" index. The ongoing practice entails "K" index as mutual responsibility of the smallholders and the company; this is very illogical and unreasonable.

In short, farmers produce FFB then procured by the processing mill. What could be the right reason that the farmers must compensate the mill's operational cost? Nevertheless, the mill belongs to a plantation company; a strong capital ownership with its own nucleus estates that are usually quite larger than the smallholders'. Below is SPKS Sekadau documentation concerning the application of "K" index by a plantation company in Sekadau.

List of "K" Index Valuation Proposal
Based on Management and Distribution Fee of CPO and PKO
PERIOD OF JUNE 2006

No	Uraian	Minyak Sawit		Inti Sawit		Tandan
		Ekspor	Lokal	Ekspor	Lokal	Buah Segar
1	2	3	4	5	6	7
1	Harga (FOB)	-	3.533,15	-	1.650,00	-
2	Pajak	-	321,20	-	-	-
3	Pemasaran	-	3,22	-	15,73	-
4	Harga FOB Bersih (1-2-3)	-	3.208,74	-	1.634,27	-
5	Pengangkutan ke pelabuhan	-	75,65	-	75,50	-
6	Harga bersih pabrik/tangki pabrik (4-5)	-	3.133,09	-	1.558,77	-
7	Rendemen	-	21,25%	-	5,00%	-
8	Harga TBS (6 x 7)	-	665,78	-	77,94	-
9	Persentase Volume Penjualan	-	100%	-	100%	-
10	Harga TBS rata-rata ex pabrik (8.4 + 8.6)	-		-		743,72
11	Biaya Pengolahan	-		-		78,08
12	Penyusutan	-		-		16,89
13	Nilai TBS di timbangan pabrik (10-11-12)	-		-		648,75
14	By Operasional Tidak Lang. (Max 5%x13)	-		-		32,44
15	Nilai TBS di Pabrik	-		-		616,31

Keterangan :

1. Indeks Proporsi "K" = $\frac{616,31}{(3.208,74 \times 21.25\%) + (1.634,27 \times 5.00\%)}$

2. Usulan Indeks Proporsi "K" Periode Juni 2006 adalah :

$$\frac{616,31}{763,57} \times 100\% = 80,71\%$$

Pic 4: Sample of "K" Index Valuation

SPKS studied (2010) that “K” index drains the smallholders’ earnings about Rp. 350/Kg. Without “K” index, the smallholders’ operational cost will decline, and the equivalent sum can be utilized to optimizing the smallholders’ own plantation.

2011, SPKS put pressures to the government through media campaigns to remove the “K” index as it is very burdensome to the smallholders. SPKS advised that if ever the “K” index remains applied, the fee must be returned to the smallholders to increase their productivity and reduce the agronomy gaps between the nucleus and the smallholders. Unfortunately, up to now the Minister of Agiculture’s policy No. 17 which regulates the “K” index has not been reviewed.

Credit Settlement

Oil palm smallholders carry with them a number of responsibilities that they have to fulfil, inter alia bank’s loan settlement. 2012 the general director of plantation of the Ministry of Agriculture issued guidance on standard cost of the plantation development for scheme smallholders, which is more or less Rp. 40 – Rp. 50 millions. The plasma farmers will start repaying the loan and its 12% interest in the fifth year after the development of the plantation. Under this credit agreement, smallholders in Sumatera and Kalimantan confirmed that the loan will be settled within 10-13 years.

The table below describes the standard cost of plantation development as in the government’s guidline. This is a guidline for the company to design the construction cost of the plantation for the smallholders.

Enclosure of the Decree of General Director of Plantation
Code : 211/Kpts/RC. 110/8/2012
Date : 14 August 2012

No	Activities	Regions						
		R - I	R - II	R - III	R - IV	R - V	R - VI	R - VII
1.	P0 Land opening & planting - Laborer - Infrastructure - Material and Tools - Management Fee 5% - Land certification	Rp.14.712.000	15.082.000	15.515.000	15.628.000	16.141.000	16.654.000	16.767.000
2.	P1 Year-1 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp.6.773.000	7.192.000	7.663.000	7.791.000	8.347.000	8.904.000	9.032.000
3.	P2. Year-2 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp.6.917.000	7.089.000	7.930.000	8.068.000	8.707.000	9.347.000	9.485.000
4.	P3. Year-4 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp.7.571.000	8.088.000	8.674.000	8.822.000	9.518.000	10.213.000	10.361.000
	Total P0 + P1 + P2 + P3	**Rp.35.973.000**	**37.451.000**	**39.782.000**	**40.309.000**	**42.713.000**	**45.118.000**	**45.645.000**

Remarks:
Region I : Jawa Barat, Jawa Tengah, DIY Yogyakarta, Jawa Timur, Banten, Bali
Region II : Sumatera Selatan, Jambi, Bengkulu, Lampung, Sumatera Barat, Bangka Belitung.
Region III : Sumatera Utara, Riau, Kalimantan barat, Kalimantan Selatan, Kepulauan Riau
Region IV : Nusa Tenggara Barat and Nusa Tenggara Timur
Region V : Sulawesi Utara, Sulawesi Selatan, Sulawesi Tengah, Sulawesi Tenggara, Gorontalo Sulawesi Barat, Kalimantan Tengah, Kalimantan Timur.
Region VI : Maluku and Maluku Utara

DIREKTUR JENDERAL PERKEBUNAN,

GAMAL NASIR

Pic 5: Construction cost per unit of oil palm plantation in 2012 (scheme)
Source: General Directorate of Plantation, Ministry of Agriculture

SPKS is of the view that Rp.40 – Rp.50 millions per hectare for the plantation construction cost is too expensive. For this reason, SPKS drafted a simple valuation and assessment of the business plan for independent smallholders involving professionals from Sekadau. Based on SPKS assessment, the average outlay per hectare is only Rp.27,759,000. However, if the construction cost is for plasma plantation, additional 5% management fee for the company must be charged. However, even with the 5% addition the total amount of the construction will only arrive at Rp. 29,146,950.

Chart 3: Factual construction cost of the smallholders' plantation in Sekadau, West Kalimantan

No	Remarks	Unit	Oil Palms	Cost	Sum
1	Persiapan bibit siap tanam		130	25,000.00	3,250,000
2	Persiapan lahan				
	Pembukaan lahan				1,700,000
	Pancang 9x8		130	1,500.00	195,000
	Gali lobang 60x60		130	2,000.00	260,000
3	Penanaman				
	Upah tanam		130	1,000.00	130,000
	Ecer bibit ke lobang		130	1,000.00	130,000
4	Pupuk dasar				
	Pospat		130	1,100.00	143,000
	Delimit		130	700.00	91,000
5	LCC/ Kacangan 1 paket				1,700,000
6	Obat -obatan/racun tikus		130	2,000.00	260,000
7	Konsolidasi tanam	3	4	60,000.00	720,000
8	Gawangan	3	12	60,000.00	2,160,000
9	Piringaan	3	12	60,000.00	2,160,000
10	Upah pupuk	3	4	60,000.00	720,000

No	Remarks	Unit	Oil Palms	Cost	Sum
11	Kontrol hama tanaman	3	2	60,000.00	360,000
12	Penyulaman	3	2	60,000.00	360,000
13	Konservasi tanah	3	2	60,000.00	360,000
14	Kastrasi	3	4	60,000.00	720,000
15	Pupuk urea	3	130	2,500.00	975,000
	Sp36	3	130	2,750.00	1,072,500
	Kcl	3	130	7,000.00	2,730,000
	Borat		2.5	75,000.00	187,500
16	Obat 1 paket	3	130	2,500.00	975,000
17	Superpaiser				1,600,000
					22,959,000
18	Pembukaan jalan				1,000,000
	Gorong-gorong				500,000
	Pengerasan				1,800,000
	Jembatan				1,500,000
					27,759,000
	Manajemen fee	5%		27,759,000	1,387,950
					29,146,950

Source: SPKS

In the revitalization program, smallholders earn only 20% of the yields. 50% of the income is deducted by the company for the maintenance cost of the plantation, while the other 30% is for credit settlement. This is the centralized management policy of the revitalization program, which is burdensome to the smallholders.

Below is the income of one of the smallholders of Rindu Sawit Cooperative in Sanggau District. He earns only Rp. 365.084. With this amount, how can a farmer support his family?

Chart 4: Smallholders' income (members of Rindu Sawit Cooperative) under the centralized management of the revitalization program for the 2 ha plantation, May 2012 (replanting period)

FFB Production (ton)	FFB Price (Rp)	Net Production (Rp)	Credit Deduction (Rp)	Deduction by the company (PTPN 13)			Cooperative deduction (Rp)	Income of Smallholders (Rp)
				Maintenance (Rp)	Carrying Labours (Rp)	Harvest Labours (Rp)		
1.722	1.135	1.954.470	586.341	512.375	258.150	206.520	26.000	365.084

Source: KUD Rindu Sawit, sub-district of Parindu, Sanggau District, & SPKS Sanggau, April 2013

All 21 smallholders from the Afdeling IV (Block IV) of the plasma plantation managed by PTPN 13 received the similar amount. Their site is listed in the revitalization program under centralized management system. The smallholders no longer work in their plantations because all agronomy activities are carried out by the company's hired laborers.

In the earlier NES or PIR program, plasma farmers managed the plantation individually and not in groups. They had independently managed their own plantation, such as manuring, harvesting, and transporting the FFB to the mill.

As a result, the income of NES plasma farmers is much higher than the current program.

Chart 5: Income of Rindu Sawit Cooperative Smallholders (partners of PTPN 13) Under PIR Partnership Scheme, August 2010

No	Names	FFB Production	FFB Price/Kg	Gross Income	Cooperative deduction	Net Income
1	Arunsius	2820	1316,94	3.713.771	86.32	3.627.451
2	Sujak	3140	1316,94	4.135.192	94.64	4.040.552
3	H. Acan	3630	1316,94	4.780.492	759.88	4.020.612

No	Names	FFB Production	FFB Price/Kg	Gross Income	Cooperative deduction	Net Income
4	Lil. Liat	1750	1316,94	2.304.645	358.5	1.946.145
5	Lut	1410	1316,94	1.856.885	169.66	1.687.225
6	Yohanes	4740	1316,94	6.242.296	136.24	6.106.056
7	Bica	2790	1316,94	3.674.263	85.54	3.588.723
8	Pronika	1000	1316,94	1.316.940	339	977.94
9	M.sini	5420	1316,94	7.137.815	153.92	6.993.895
10	Y. Yusuf	1450	1316,94	1.909.563	290.7	1.619.863
11	Apo	1300	1316,94	1.712.022	46.8	1.665.222
12	Suran	1760	1316,94	2.317.814	58.76	2.259.054
13	Jamin	-	1316,94	-	-	-
14	Suna	1380	1316,94	1.817.377	558.88	1.258.497
15	M. Sobol	3620	1316,94	4.767.323	107.12	4.660.203
16	Sonyl	1290	1316,94	1.698.853	371.54	1.327.313
17	Idoriadi	-	1316,94	-	-	-
18	Usai	1570	1316,94	2.067.596	53.82	2.013.776
19	Piyae	1870	1316,94	2.462.678	61.62	2.401.058
20	M. Tamik	960	1316,94	1.264.262	225.46	1.038.802
21	Nzek	480	1316,94	632.13	25.48	606.65

Source: KUD Rindu Sawit, 2010 & SPKS Sanggau

The smallholders' income above has not included the deductions yet, such as for purchasing fertilizers, payment of harvesting laborer, and transport of FFB. Different earnings in the above chart are affected by lackness of manuring, or because the plasma farmers included the FFBs from their home yard into the delivery container for the cooperative.

Some scheme smallholders do not only manage the 2 ha plasma plantation, but they have grown more oil palms independently. This fact has to be considered that the smallholders' income from 2 ha

plasma plantation can not meet their domestic needs.

Other oil palm smallholders in Beduai sub-district, Sanggau, have not experienced the said earnings story. Here, community members relinquished 5.5 ha land for the nucleus estate. Both parties agreed to work with the one-roof management policy that the whole plasma plantation will be managed by their partner company PT Borneo Ketapang Permai (PT BKP) and the smallholders get their income distributed. The smallholders were promised 2 ha plasma plantation from PT BKP, and 0.5 ha for the road infrastructure. However, the company has manipulated the people's confidence.

Ever since the development of the plantation began in 2002, the community has relinquished 2000 ha land to the company. However, so far has only 1200 ha is planted by PT BKP. And out of 1200 ha planted, only 490 ha can be harvested. The rest of the yields in 710 ha sites can not be harvested due to poor roads infrastructure, hence unaccessible.

Sources: SPKS Paser

Lacking plantation maintenance is also evident. The plasma plantations are sheltered by timbers and shrubberies. All of these problems lead to decreasing income of the smallholders. Below is the chart on the smallholders' income during their partnership agreement with the PT BKP.

Chart 6: Income of Sawit Sejahtera Smallholders Group, Beduai Sub-District, Sanggau, 2009

No	Smallholders	Estate Sites	Size (ha)	Nucleus (70%)	Scheme (30%)	Average productivity per ha	Smallhodlers income (Rp)
1	Randa	120	0,56	0,39	0,17	258,127	43.365
2	Antonius J.	Km 5	1,11	0,78	0,33	258,127	85,956
3	Rawang	Otongk I	2,78	1,95	0,83	258,127	215,278
4	Muksin	Otongk II	1,52	1,06	0,46	258,127	117,706
5	Mancu	Otongk III	3,44	2,41	1,03	258,127	266,387

Source: Smallhodlers Group "Sawit Sejahtera", 2009

The above data illustrated that in block 120, 64 farmers earned Rp.32,524– Rp.468,501 per household. Km5 on the contrary, 15 farmers earned Rp. 42,591 – Rp.427,458. In Otongk I block, 30 farmers received different income of Rp. 12,390 - Rp. 398,032 per household. While in Otongk II, 8 farmers earned between Rp. 20,134 - Rp. 233,089 per household. In Otongk III, smallholders' income in the range of Rp. 25,55 - Rp. 489,409 received by 33 farmers.

What makes plasma farmers of Sawit Sejahtera Cooperative earned differently with each other, even if they are from the same block of the plasma plantation? Different income of each farmer is as a result of the different size of their relinquished land. Those who gave up 5.5 ha land or more, they got 3.44 ha estate site in return; thus, the larger the land, the higher the income.

Sources: SPKS Paser

Similar issue is happening to the plasma farmers of Makmur Bersama Cooperative, who have sealed a partnership with PT Sumatra Makmur Lestari in Sekadau district, West Kalimantan. During 26 March - 25 April 2013, smallholders' income varied between Rp. 25,000 - Rp. 150,000.

The two cases in point above derive from one-roof or centralized management policy.

In Kuantan Mudik sub-district, Kuantan Singingi district, Riau, smallholders are learning the same condition. 1996, the community members relinquished 9.316 ha to their partner plantation company PT Tribakti Sarimas. Subsequently, the plantabe land area was only 7.600 ha.

Smallholders from 11 participating villages demanded that the company returned the extra 1.716 Ha land back to the community. Until 2013, this problem has not been resolved by the company.

As a consequence, smallholders only received Rp.150,000 – Rp.600,000 income per month.

Sources: SPKS Rokan Hulu

Chapter III

Smallholders-based Replanting of Oil Palm: Key Challenges & Opportunity

As a rule, the oil palm revitalization is compulsory as the plants have grown beyond their productive period. This happens in the oil palms' 25th planting year. Some agronomists recommend, when the oil palms enter their 25th year, they must be cut down and renewed. For practical reasons among the smallholders however, by the time the oil palm reaches its 25th years, harversting gets more and more difficult, as the oil palms will be very high by then; thus harversting will cost more, because it takes longer to harvest.

While large plantation established during the 80s is now preparing to replant; smallholders are pushed back to remember how and when their plantation was developed through a partnership scheme, called plasma partnership.

In the 80s Indonesian government launched an agriculture approach to integrate large plantation companies with smallholders. Funded by World Bank, PIR-TRANS and some more projects such as PIRNES and PIRLOK were created as a program involving large plantation company integrated with the neighbourhood, which consisted of transmigrants and local community. At this point, the community came together into new land area, where a plantation company opened rural areas into oil palm plantations. During no-producing years, the communities work in the oil palm plantations as laborers to make living. Their tasks included cutting down the trees in the forests, planting, manuring, and spraying the oil palms.

For the transmigrants, Kalimantan and Sumatera were newly-found surroundings. They had to survive and rely on the oil palms. All they learned from the local government when they regietered to partake in the program was that oil palm is potential export commodity and the plantation will certainly make them wealthy. But those who later found that transmigration program was absurd returned to their village of origin in Jawa or Bali.

This memory keeps flashing around the oil palm smallholders. In reality, they are forced to remove oil palms that have been part of their history, to be replaces with new plants. They are expected to say, 'welcome replanting and goodbye past time'.

Along with it, in 2006 the government of Indonesia issued the initiative "revitalization of plantation". The revitalization aims at expansion, replanting, and rehabilitation of plantation. To boost the success of the revitalization, the government invites banking sector to grant credit with special interest rate. Presently, the credit interest happens to be main concern of the oil palm smallholders in Indonesia, because the partnership scheme puts in very fundamental and specific transformation of the relationship between the plantation company and smallholders.

A. Regulations and definitions on the revitalization of plantation:

1. Minister of Agriculture's decree No. 33/Permentan/OT.140/7/2006 on plantation development through revilatisation;
2. Minister of Finance's decree No.117/PMK.06/2006 on credit facility for the development of vegetable energy and the revitalization of plantation;
3. Financial cooperation agreement between the Minister of Finance c.q. General Director of Treasury and five implementing banks (PT. BRI, PT. Bank Mandiri, PT. BUKOPIN, PT. BPD North Sumatera, and BPD West Sumatera or Bank Nagari) dated 20 December 2006;

4. General Guidebook on the Revitalization program, issued by General Directorate of Plantation, the Ministry of Agriculture, January 2007;
5. Guidebook from Bank Mandiri on credit facility for vegetable energy development and the revitalization of plantation.

The revitalization program for plantation serves as acceleration of the community plantation development through expansion, replanting and rehabilitation of the oil palms with the support of investment credits and subsidised interests from the government.

The revitalization functions through involvement of partner companies during the development and management of the plantation, and yields distribution. The policy draws up plans for the replanting model and expansion, while the government prepares the cost unit for the new planting procedure and replanting.

Three potential commodities identified for the revitalization program are palm oil, cacao, and rubber. Unlike rubber and cacao, oil palm smallholders in the revitalization program are not granted direct access to the bank. Instead, when smallholders submit bank loan proposal, they have to have credit guarantor (avalist).

According to the guidebooks on Revitalization issued by the General Directorate of Plantation of the Ministry of Agriculture and Bank Mandiri, the construction and management of plasma plantation under revitalization program are in partnership scheme.

This policy instructs further that "scheme plantations are constructed and managed by a partner plantation company under a centralised management (one-roof-management) policy for as a minimum of one planting cycle (± 25 years)". The centralised management policy obliges an existing transparency, inter-dependency relations, and reciprocal benefit.

B. Funding for Smallholders' Replanting

Funding from banks is the most important to support replanting projects as part of the revitalization program. Legal basis for bank loan distribution is the Minister of Finance's decree that allows the partner company to submit credit proposal within the amount as directed by the General Directorate of the Plantation of the Agriculture Ministry.

To obtain bank loan for smallholders' replanting program, a plantation company submits the bank loan proposal. If the proposal were approved, the bank will allocate credit to the company. At the same time, the bank will report to the Finance Ministry to obtain subsidised interest rate as regulated in the decree of the Finance Minister. In short, as revitalization is exclusively funded through bank loan with subsidised interest, the government is obliged to pay the interest to the bank.

The investment credit interest rate of the construction of plasma plantation is fixed at 10%. In the case of oil palm, the 10% interest is applicable for five years. Adjustment at anytime is likely as justified in the decree.

Smallholders replanting cost covers the cost during construction up to production. It includes bank interest, 5% management fee for the company, and the interest during contraction (IDC). This policy resembles the typical financing scheme of the Nucleus Estates and Smallholders (NES) or Perkebunan Inti Rakyat (PIR).

Similar to NES scheme, participating smallholders of replanting program are obliged to set up a cooperative. The cooperative represents the smallholders to receive bank loan for the expansion and replanting activities. Smallholders will be required to settle the credit when the oil palms are in production period. One of the most committed finance agencies is Bank Mandiri. By the end of October 2009 Bank mandiri has disbursed around Rp.35 trillions revitalization credits to support the development of oil palm business.

Procedure for Credit Grant:

1. Having obtained an authorization from participating smallholders through the cooperative, a plantation company submits credit proposal to one of appointed banks.
2. The credit proposal must enclose the following documents:
   a. Company's license and legality evidence;
   b. Management structure and curriculum vitae of the company's leaders;
   c. Project's feasibility proposal;
   d. Credit disbursement and settlement plan;
   e. Cooperation agreement between the cooperative and the plantation company.

   The cooperation agreement shall incorporate:
   a) Background and objective of the cooperation;
   b) Duration of the agreement (at least one planting-cycle or 25 years);
   c) Rights & Responsibilities of both parties;
   d) Agronomy management plan for both participating smallholders and the nucleus under a centralised management (one-roof management);
   e) Management structure and curriculum vitae of the company's leaders;
   f) Authorisation letters from each participating smallholders to the company to sign the credit disbursement on their behalfs.
3. Participating smallholders may submit proposal via the cooperative to the implementing bank enclosing the following documents:
   a. Proposal of plantation development, either individually or in groups;
   b. Authorization letters from participating smallholders / cooperative members stating that the appointed person of the cooperative will manage credit disbursement and settlement;

c. Letter of candidature of the smallholders certified by the district head c.q. Local office head of the plantation;
d. The management structure and curriculum vitae of the managers of the cooperative.

4. Credit's collateral

The warranty includes major and additional collaterals, such as

a. Major collateral, that is the plantation land to be invented through the credit facility requires: land tenure of participating smallholders or Land-Use certificate (Hak Guna Usaha) for the use on behalf of a group of smallholders in teh cooperative.
   Should these requirements be missing, the proposing party may enclose a location permit and additional letter certified by the local government to be upgraded to land certificate.
b. Additional collateral, such as an aval letter from the partner company (guarantee) to assure the whole credit settlement.

5. Any additional condition applied by the banks in accordance with their interal policy beyond the aforementioned.

The above illustration on the procedure for obtaining credit facility shall further clarify that credit interest is subsidised by the government of Indonesia.

C. Loan Arrangement According to the Government

The regulation on credit plafond is reviewed by the government every year. This, however, is only guidance to the plantation company when drafting credit proposal to the bank.

Actually, the standard of construction cost unit of oil palm plantation from the government is not comprehensive. Even so, the standard used by a plantation company is generally far beyond the one of the government's. Besides, smallholders participatory and/or the cooperative's contribution in drafting the revitalization overheads are still very low. Moreover, the drafting of credit overheads is sometimes put out

of smallholders' sight.

For example, 2012 construction cost of oil palm plantation below, which is very general and not clear-cut for palm oil. This adds to the reasons why smallholders wish to initiate an independent replanting.

Chart 1: Cost of Oil Palm Construction per ha, 2012 (scheme smallholders)

Source: General Directorate of Plantation
Enclosure of the Decree of General Director of Plantation
Code : 211/Kpts/RC. 110/8/2012
Date : 14 Agustus 2012

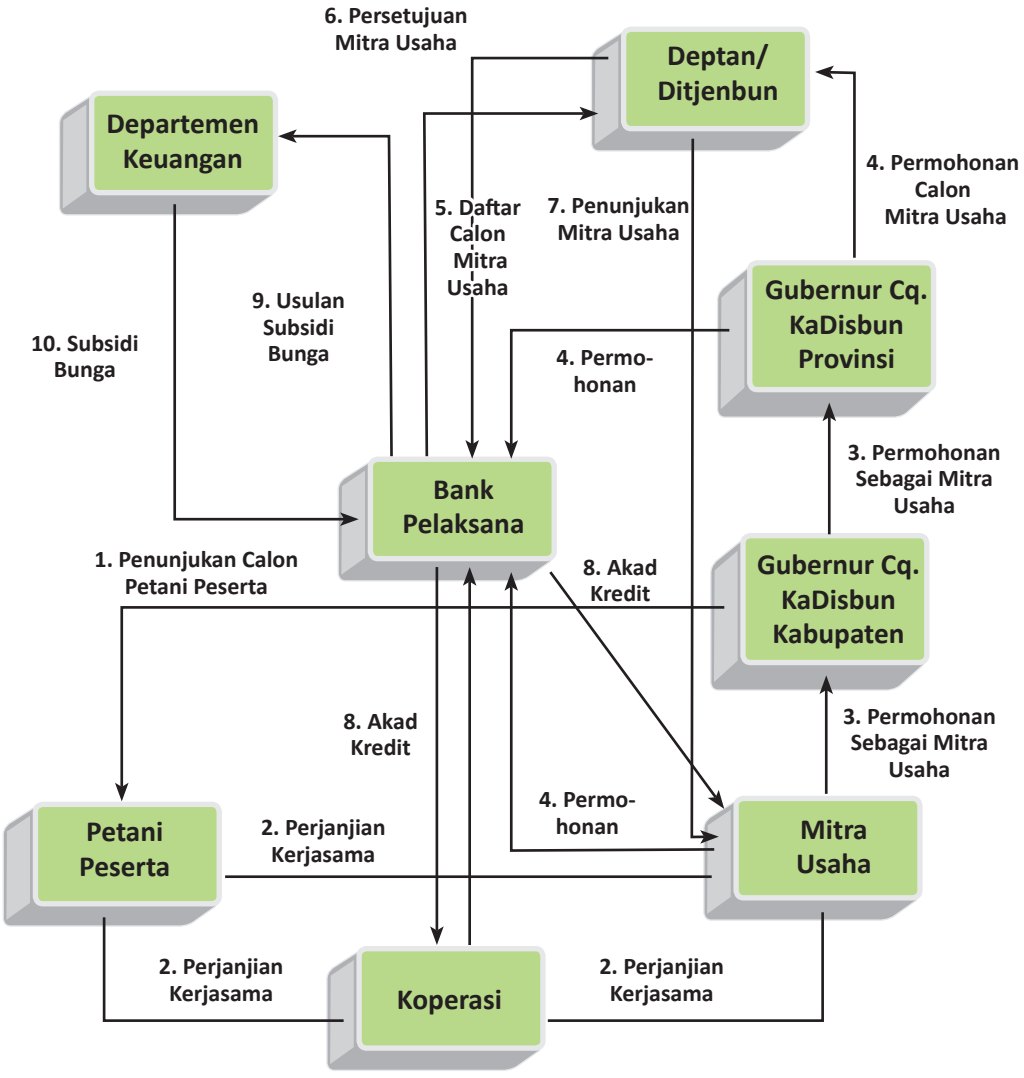
No	Activities	Regions						
		R - I	R - II	R - III	R - IV	R - V	R - VI	R - VII
1.	P0 Land opening & planting - Laborer - Infrastructure - Material and Tools - Management Fee 5% - Land certification	Rp. 14.712.000	15.082.000	15.515.000	15.628.000	16.141.000	16.654.000	16.767.000
2.	P1 Year-1 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp. 6.773.000	7.192.000	7.663.000	7.791.000	8.347.000	8.904.000	9.032.000
3.	P2. Year-2 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp. 6.917.000	7.089.000	7.930.000	8.068.000	8.707.000	9.347.000	9.485.000
4.	P3. Year-4 Maintenance - Laborer - Material and Tools - Management Fee 5%	Rp. 7.571.000	8.088.000	8.674.000	8.822.000	9.518.000	10.213.000	10.361.000
	Total P0 + P1 + P2 + P3	**Rp. 35.973.000**	**37.451.000**	**39.782.000**	**40.309.000**	**42.713.000**	**45.118.000**	**45.645.000**

Remarks:
Region I : Jawa Barat, Jawa Tengah, DIY Yogyakarta, Jawa Timur, Banten, Bali
Region II : Sumatera Selatan, Jambi, Bengkulu, Lampung, Sumatera Barat, Bangka Belitung.
Region III : Sumatera Utara, Riau, Kalimantan barat, Kalimantan Selatan, Kepulauan Riau
Region IV : Nusa Tenggara Barat and Nusa Tenggara Timur
Region V : Sulawesi Utara, Sulawesi Selatan, Sulawesi Tengah, Sulawesi Tenggara, Gorontalo Sulawesi Barat, Kalimantan Tengah, Kalimantan Timur.
Region VI : Maluku and Maluku Utara

Chart 2: Revitalization of the plantation (scheme)

Source: General Directorate of Plantation

Alur Proses Pelaksanaan Program Revitalisasi Perkebunan dengan Mitra Usaha



Description:

1. District head c.q. head of local plantation office decide on the candidates for the participating smallholders (sequence 1)
2. Smallholders enter into cooperation agreement with the partner company (sequence 2). The cooperation is tripartite involving candidates of participating smallholders, cooperative, and the candidates of the partner company (sequence 2).
3. Proposal concerning the partner company is gradually submitted by the plantation company to the district head c.q. head of local plantation office, governor c.q. provincial head of plantation office (sequence 3).
4. Subsequently, the proposal is submitted to the General Director of Plantation, Ministry of Agriculture, c.q. the implementing bank (sequence 4).
5. Following the recommendation from the General Director of Plantation on the candidate partner company (sequence 5), the bank gives a decision either to approve or to refuse the company's candidature (sequence 6).
6. Should the bank approve the proposal, the General Director of Plantation will issue a letter of authorisation for respective company to be the partner (sequence 7), followed by a verification of the management partnership between plantation company and smallholders (sequence 8). By the time the implementing bank receives a letter of an aval (guarantee), the loan can be disbursed provided that the cooperative agrees to imburse the credit.
7. The implementing bank may propose credit expense to the Ministry of Finance (sequence 9). If this is approved, the Finance Ministry via the Directorate General of Treasury will fix on the subsidized interest.

D. Challenges to Smallholders-based Replanting

Replanting policy has been in place since 2006; however, the implementation of this policy faces some technical challenges. A lot of people recognized that the execution has failed. Below is the national replanting program until 2030:

Chart 3: Projection of Oil Palm revitalization, 2005 -2030

No	Year	Replanting Capacity		
		Smallholders (ha)	Nucleus (ha)	Total
1	2005	1.626	31.995	33.621
2	2006	10.011	143.96	24.407
3	2007	15.353	477.69	63.122
4	2008	17.104	58.641	75.745
5	2009	18.713	87.662	106.375
6	2010	25.044	60.297	85.341
7	2011	32.889	28.717	61.606
8	2012	21.660	100.222	121.882
9	2013	18.723	115.474	134.197
10	2014	27.553	83.116	110.669
11	2015	67.506	85.643	153.149
12	2016	93.256	91.063	184.319
13	2017	67.833	88.641	156.474
14	2018	62.864	82.853	145.717
15	2019	70.212	120.750	190.962
16	2020	85.992	134.845	220.837
17	2021	80.351	144.177	224.528
18	2022	74.288	598.494	672.782
19	2023	77.331	560.569	637.900
20	2024	150.540	191.066	341.606
21	2025	125.721	130.563	256.275

No	Year	Replanting Capacity		
		Smallholders (ha)	Nucleus (ha)	Total
22	2026	365.250	190.108	555.358
23	2027	247.393	106.230	353.623
24	2028	63.044	205.642	266.686
25	2029	67.623	148.570	216.193
26	2030	29.166	172.618	201.784

Source: General Directorate of Plantation and PPKS

The above diagram is the government's master plan for replanting of the nucleus and smallholders. However, the accomplishment is far below the target; some accused that the failure is a result of the centralised or one-roof management, which is the main concern of the smallholders. What are the reasons that make smallholders hesitant to the centralized policy?

The smallholders are reluctant to one-roof management policy as it will take over the management of their entire plantation, from planting, maintenance, harvesting, and yields transportation. Subsequently, centralised management has the right to demand 5% management fee from smallholders.

In scheme plantation management, which is the basic foundation of centralised or one-roof management, smallholders give up their original land area and re-obtain their plantation site somewhere else. The scheme plantation (plasma) puts together the entire land size of participating smallholders and exchanged into one plasma property elsewhere, splitted up for all participating smallholders in accordance with their relinquished land size.

At this point, smallholders no longer practice farming activities and agriculture tradition; they even lost their own land too. In addition to the alleged centralised management, failed implementation of replant-

ing policy derives from high mortgage.

Actually, smallholders are able to design the replanting cost for their plantation. SPKS supervised smallholders from two provinces to study their readiness. The smallholders' drafted the overheads of Rp.21 million per hectar for their replanting. Meanwhile, large plantation company comes up with the cost of Rp.45 million per hectar. The large difference motivates smallholders to replanting independently.

The huge gap of outlays in the independent and scheme replantings adds more to the prospect of relationship between smallholders and the plantation company. Ex plasma farmers prefer independent replanting usually because of upsetting experience during their plasma cooperation with earlier partner company.

The oil palm smallholders have reservation with the duration of the partnership, which is one planting cycle (25 years). Compared with previous NES program, a plantation company manages only 5 years during the scheme plantations are in non-productive period; subsequently the smallholders will manage the plantation by themselves.

"To the smallholders who have settled the loan, the bank via the partner company will return the land tenure certificate. Normally, when the smallholders hold their land certificate, they will apply for another bank loan in order to develop and expand their business, such as to acquire other land area or plantation. The repayment mechanism is made through the trade of the yields in their current plantation.

By and large, the land ownership of the scheme plantation sometimes has changed to other party. In some plasma estates, this kind of incidents put barriers in the implementation of one-roof management replanting policy, because of the different names on the certificate with the current ownership.

Likewise, aged smallholders will transfer the plantation to their children. Again, the current smallholder is different than the original land owners. A good number of this smallholders' second generation find

their own way for independent replanting.

These factual issues are not easily handled by the plantation company; the company can not even force a centralised management for the replanting given the said facts on the field.

Main problem in the centralized management of replanting is incoherent perspective of the smallholders group upon one-roof management policy. For example, a number of smallholders agree to sign a partnership with a plantation company, but some members refuse. This will create another problem for the company to establish an efficient and well-organized replanting if the smallholders' plantations are scattered at different locations.

Conversely, those smallholders ensuing independent replanting will have liberty to further carry out their activities. This has an impact to their productivity too. Albeit facilities and incentives offered by a plantation company, smallholders remember well that not all of the promises were kept and fulfilled.

Take an example of scheme smallholders in Sanggau, West Kalimantan; 80% of their yields are automatically cut off by the partner company for the maintenance of the plantation and the settlement of their bank loan. In reality, the smallholders and/or the cooperative are not informed and involved in the said transaction. In point of fact, the procedure might be educating the smallholders of their rights and obligations; hence, minimize conflicts.

52 blocks of Tapung Jaya villagers' oil palm plantation Reject the Replanting

Thursday, April 19, 2012 - 10:49:02 western Indonesia

http://www.detakriau.com/berita-2294-52-kapling-kebun-sawit-warga-desa-tapung-jaya-tolak-replanting.html

TANDUN (detakriau.com) – Although hundreds of families in

Tapung Jaya village, Tandun sub-district, are awaiting a decision from Bank Mandiri as the financial investor, 52 blocks of oil palm plantation owned by the villagers refuse to participate in the re-planting program. They argue that their plantations are being replanted at their own expense.

"It does not mean that i disagree with the replanting program offered by the cooperative KUD Karya Mukti in partnership with PTPN-V and Bank Mandiri; however i have been replanting independently and these palms are starting to yield. I will not cut down these palms ever, because i have invested millions of rupiah in it," said Selamet Samsudin, member of P7 Tapung Jaya village to the Journalist of Metro Riau on Wednesday (18/4).

He continued, since 2006 the replanting plan has been socialised, but no real action was evident. Hence, he had to start the initiative of independent replanting at his own expense.

"Even though i have been replanting independently, i remain a member of the cooperative. I had spoken with Karya Mukti cooperative leader, Mulyadi. If the replanting does not take place in my block until 2010, i will do it myself, and don't blame me. Having waited some time, i don't see real progress of the replanting plan. Therefore i started replanting the oil palms in my own plantation," said Selamet Samsudin.

Still, Selamet Samsudin is likely to let the palms cut down, if compensated with proper amount. He will do this only because he does not want to be blamed to preventing the government's program.

"I have been waiting for several years now, when they say they want to help replanting. Yet, i am about to profit from the yields. If only the local government of Rohul District had informed on the schedule of the replanting, i could have waited a little bit

longer. However, after some time, no replanting activities have been carried out, just these days. Still, it remains a plan, nothing has started. Regardless, it takes time to replanting," said Selamet Samsudin.

Quite the opposite, Tapung Jaya village head, Mr. Kusnadi stated that he obtained a record of 87 owners of oil palm blocks who did not want to participate in replanting. Currently the figures have decreased to 52 blocks.

"Karya Mukti cooperative has fulfilled the replanting requirements, and now we are awating the decision from the Headoffice of Bank Mandiri. We have recently attended a meeting with the bank, PTPN-V, the cooperative Karya Mukti, and Upika Tandun," concluded Kusnadi. (palas)

E. Replanting, from the Smallholders' Perspective

Smallholders have their individual preference and strategy in replanting. There are three replanting techniques, depending on the financial condition of the smallholders. They are insertion, manual replanting, or mechanical replanting.

If the smallholders want to keep their profits during the non-productive years, they will definitely choose manual and insertion replanting techniques.

a. Overall, smallholders choose insertion or interjection method for independent replanting. This method allows the oil palm farmers to insert new seedlings in between mature oil palms, whilst they vaccinate the mature oil palms to accelerate its ageing process.

Smallholders prefer insertion method, because:

a) More cost-effective;
b) Ageing crops still generate yields during the non-productive period of young palms;
c) Less effort than other methods.

In terms of agronomy, negative impacts are haunting the insertion technique, such as:

a) Stimulate the emerging of pest plants when the oil palms get olders and rotten;
b) Extend the period of non-productive years (TBM), as new planting can not grow optimally because of being shadowed by the older palms.

SPKS has discovered that insertion is not merely applied by smallholders, but also by companies.

b. Secondly, smallholders exercise manual practices that is planting new seedlings in between aged oil palms. However, the mature palms are already chopped down prior to placing the seedlings. This method is less recommended, as the practice can be very costly. Despite that, it is unsafe to cutting down the old palms while placing the seedlings. More to the point, smallholders do not earn anything during the non-production 4 years.
c. Third method is mechanical replanting. This method utilizes heavy equipment to cut down the oil palms, followed by placing the seedlings. This method is finest as new palms can grow freely on the cleared plantation site; thus, reconditioned. However, this mechanical method is the most expensive practice.

By and large, replanting techniques of the plantation companies and smallholders monitored by SPKS are identical. Hence, what is the main issue in the smallholders' replanting?

1) Smallholders' replanting cost unit

Smallholders own the capacity for independent oil palm replanting. Yet they need trouble-free access to the bank loan as well as proper and effective regulation and policy from the government.

When designing the replanting cost, smallholders must participate actively, as the credit amount will be passed on as the smallholders' bank loan. Below is the replanting cost unit designed by smallholders, which is completely different from the company's proposal for the scheme plantation.

Chart 5: Smallholders' Replanting Cost Unit

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
I	PENAMANAN DAN PEMELIHARAAN				
1	Meracun Pokok Sawir				
2	Membersihkan Jalur Tanam				
	a. Babat Gawangan				
	b. Semprot Gawangan				
3	Pemberantasan Lalang :				
	a. Spot Spraying				
	b. Wipping Lalang				
4	Mengatur jarak dan gali lobang Tanam				
	a. Pancang				
	b. Gali Lobang Tanam				
5	Membangun dan menanam Kacangan				
	a.Membuat jalur dan tanam kacangan				
	b.Membangun Kacangan				
6	Membangun Teras				
	a. Membuat Tapak Kuda b. Membuat Tapak Timbun				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
7	Ecer Tanam bibit				
8	Infrastruktur :				
	a. Rehab jalan Produksi /koleksi d/ TRR				
	b. Membuat Jembatan				
	c. Membuat Gorong-gorong				
9	Memupuk lobang tanam (RP)				
	Memupuk Kacangan dengan NPK				
	Memupuk Kacangan dengan RP				
	Memupuk Tanaman Umur 1 bln dengan urea				
	Memupuk Tanaman Umur 3 bln dengan urea				
	a. MOP				
	b. Kieserit				
10	Pemberantasan Hama dengan klerat				
11	Inventaris Pokok				
12	Konsolidasi Pokok				
	Jumlah I :				
II	BAHAN - BAHAN				
1	B i b i t				
	Glyphosate untuk meracun				
2	Glyphosate untuk Semprot 1				
3	Glyphosate untuk Semprot 2				
4	Glyphosate untuk Spot Spraying				
5	Glyphosate untuk Wipping I				
6	Glyphosate untuk Wipping II				
7	Ally untuk Semprot 1				
8	Pupuk untuk Kacangan (NPK 15:15:6:4)				
9	Pupuk RP untuk Kacangan				
10	Pupuk RP untuk campuran kacangan				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
11	Pupuk RP untuk lubang Tanam				
12	Pupuk untuk Tanaman umur 1 bln d/ urea				
	Pupuk untuk Tanaman umur 3 bln d/ urea				
	a. MOP				
	b. kieserite				
13	Biji Kacangan PJ				
14	Klerat RMB				
15	Marfu-P				
16	Bambu Pancang				
	Hand Sprayer				
	Cangkul				
	Parang Babat				
	Cangkul Garuk				
	Drum Plastik				
	Jumlah II :				
III	ANGKUTAN				
1	Angkutan Bibit				
2	Angkutan Pupuk				
	Jumlah III :				
	Jumlah Investasi :				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
I	PEMELIHARAAN (TBM I)				
1	Pemeliharaan Jalan dan saluran air				
2	Menyisip Kelapa Sawit				
3	Wiping Lalang				
4	Membuat Pasar Kontrol 1 : 4				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
5	Menyiang M3 (incl. Pemel pasar kontrol)				
6	Memupuk Kelapa Sawit umur 5 Bln				
	- Urea				
	- MOP				
	- Kieserite				
7	Memupuk Kelapa Sawit umur 8 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
8	Memupuk Kelapa Sawit umur 12 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
9	Hama dan Penyakit				
	a. Hand Picking Ulat				
	b. Memasang Racun Tikus				
8	Memupuk Kacangan dengan RP				
9	Inventaris Pokok				
10	Konsolidasi Pokok				
	Jumlah I :				
II	BAHAN - BAHAN				
1	Bibit				
2	Memupuk Kelapa Sawit umur 5 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
3	Memupuk Kelapa Sawit umur 8 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
4	Memupuk Kelapa Sawit umur 12 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
5	RP untuk Kacangan				
6	Glyphosate				
7	Klerat RMB				
8	Hand Sprayer				
9	Cangkul				
10	Parang babat				
11	Cangkul garuk				
12	Ember isi 15 ltr				
13	Kain lap				
14	Drum Plastik				
15	Takaran pupuk				
	Jumlah II :				
III	ANGKUTAN				
1	Angkut Bibit				
2	Angkut Pupuk				
	Jumlah III :				
	Jumlah Pemeliharaan :				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
I	PEMELIHARAAN (TBM II)				
1	Pemeliharaan Jalan dan saluran air				
2	Pemel. Tapak Kuda + Tapak Timbun				
3	Menyisip Kelapa Sawit				
4	Wiping Lalang				
5	Membuat Pasar Kontrol				
6	Menyiang M3 (Incl Pasar Kontrol)				
7	Hama dan Penyakit				
	a. Hand Picking Ulat				
	b. Memasang Racun Tikus				
8	Memupuk Kelapa Sawit umur 16 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
9	Memupuk Kelapa Sawit umur 20 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
10	Memupuk Kelapa Sawit umur 24 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
11	Kastrasi				
12	Inventaris Pokok				
13	Konsolidasi Pokok				
	Jumlah I :				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
II	BAHAN - BAHAN				
1	Bibit				
2	Memupuk Kelapa Sawit umur 16 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
3	Memupuk Kelapa Sawit umur 20 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
4	Memupuk Kelapa Sawit umur 24 Bln				
	- Urea				
	- MOP				
	- Kieserite				
	- HGF-Borate				
5	Glyphosate				
6	Klerat RMB				
7	Hand Sprayer				
8	Cangkul				
9	Parang Babat				
10	Cangkul Garuk				
	Jumlah II :				
III	ANGKUTAN				
1	Angkut Bibit				
2	Angkut Pupuk				
	Jumlah III :				
	Jumlah Pemeliharaan :				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
I	PEMELIHARAAN (TBM III)				
1	Pemeliharaan Jalan				
2	Peningkatan Jalan Produksi				
3	Peningkatan Jalan Koleksi				
4	Membuat Jembatan				
5	Membuat Gorong-gorong				
6	Pemeliharaan Saluran Air +				
	Tapak Kuda + Tapak Timbun				
7	Wiping Lalang				
8	Menyiang M3 + Pasar Pikul				
9	Pemberantasan Hama				
	Hand Picking Ulat				
10	Memupuk Kelapa Sawit umur 28 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
11	Memupuk Kelapa Sawit umur 32 Bln				
	- Urea				
	- RP				
	- Kieserite				
12	Kastrasi				
13	Membuat TPH				
14	Tunas Pendahuluan				
15	Inventaris Pokok				
	Jumlah I :				

No	Uraian Pekerjaan	Rotasi	Norma Per ha		
			Satuan	Fisik	Hok
II	BAHAN - BAHAN				
1	Memupuk Kelapa Sawit umur 28 Bln				
	- Urea				
	- RP				
	- MOP				
	- Kieserite				
2	Memupuk Kelapa Sawit umur 32 Bln				
	MOP				
	- Urea				
	- Kieserite				
3	Glyphosate				
4	Hand Sprayer				
5	Cangkul				
6	Parang Babat				
7	Parang Garuk				
	Jumlah II :				
III	Angkutan				
1	Angkut Pupuk				
	Jumlah III :				
	Jumlah Pemeliharaan :				

Sources: SPKS

Remarks	Rp/ha
TU 0	7,543,108
TBM 1	3,242,266
TBM 2	4,346,703
TBM3	5,239,844
Investment	20,371,921
OHC 5%	1,018,596
Investment (incl. OHC)	21,390,517

Source: SPKS 2013

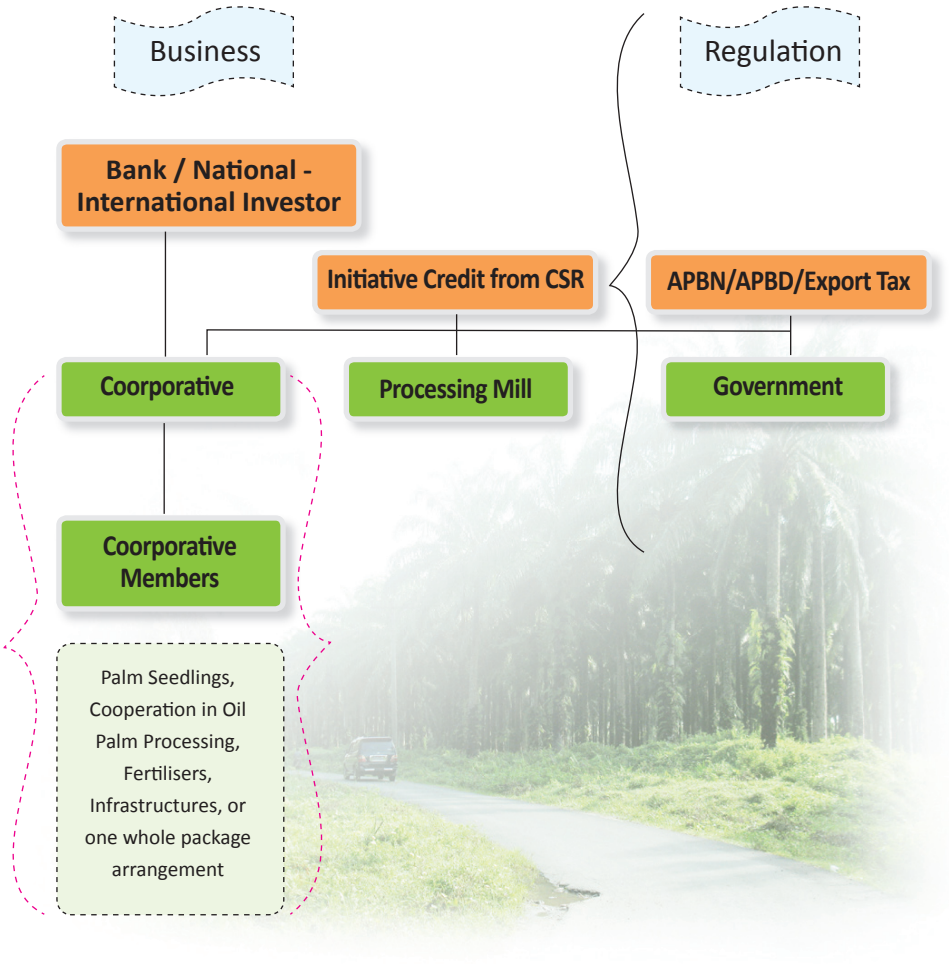
2) Alternative Replanting

Looking at current replanting program, it is important to initiate a breakthrough and design replanting scheme where smallholders participate actively at significant level. Below is an example standard of alternative replanting and partnership scheme created by SPKS.

There must be a minimum standard of the above condition to design an alternative replanting scheme. So, SPKS supports and promotes pro-smallholders revitalization and partnership scheme. One additional point, smallholders are not new in the oil palm cultivation. However, the missing link in the agronomy is maintaining the plantation, seedlings management, and the supervision and assistance to the smallholders.

Nonetheless, FFB price must be determined transparently that the smallholders can have access to the process too. The grading system or sortation in the palm oil processing mills should be reviewed that the smallholders are not being disadvantaged.

Picture: Alternative Replanting Scheme for Smallholders



Description:

Key in the above scheme is the cooperative. It has very significant role; therefore as an institution, the cooperative shall be enhanced and strengthened to master the plantation business management. Investors or banks need to make sure that the cooperative has the capacity and good management quality. Continuous assistance shall be given to the cooperative, to enhance, empower, and ensure that the cooperatives operate well.

Sources: SPKS

The cooperative has to double-check their membership and land banks of the members. Legal certificates of the lands have to be well documented as required by the investors or business partners.

In its relation to the investors or banks, the cooperative has to safeguard the purchase of FFB by the partner company. The purchase agreement has to be documented in a format of Memorandum of Understanding (MoU) or cooperation agreement. The role of the government is therefore, to support and monitor that everything is carried out properly, as well as verify the legality of the smallholders' land.

There are alternatives to the financial resource of the replanting. Beside the banks and investors, business initiatives from oil palm com-

panies through CSR (Corporate Social Responsibility) program would be valuable foundation of the smallholders-company cooperation. The government can allocate funding from the local budget plan (APBD). Parallel dialogues with the legislative body at local level would help settling the arrangement.

The above partnership scheme is also practicable; instead of financial support, credit facility through a partnership scheme can be used in different ways; such as supply of oil palm seedlings, development of infrastructure, supply of fertilisers, or as one whole package of the said cooperation. It is fundamental that the partnership must be based on mutual agreement.

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This can be an alternative solution to the centralized management; and that the partnership scheme in the oil palm management can have assorted formats, not only centralized management.

SPKS learned in some regions, where the interests of the smallholders are not accommodated and the smallholders' condition is not valued critically, for instance the calculation of credit overheads. Smallholders' organization has produced a replanting estimate that is different than the details in the company's price. Would both parties integrate their views together, then innovative and vigorous design of replanting could emerge. This can be reproduced and copied to a different place innovatively.

Therefore, key in the smallholders-based replanting is to engage financial agencies to apply practical grant access to the smallholders. For example, the grace period of the loan shall be more realistic. All parties involved in a partnership scheme must play their roles and keep their commitment to support smallholders for sustainable and inclusive growth of palm oil. Replanting inputs such as seedlings, fertilizers, and

heavy equipment to chop down the palms are to be provided by the partner company. Hence, smallholders and the partners are complementary to each other. This is the authentic agriculture tradition and profitable arrangement of the Nucleus Estate and Smallholders partnership.

Sources: SPKS Labuan Batu Utara

Chapter IV

Promoting Independent Smallholders - An Alternative to Indonesian Oil Palm Business - Market Transformation as an Opportunity for the Palm Oil Trade -

The Government of Indonesia recently issued law No. 19/2013 concerning the Protection and Empowerment of Farmers. Likewise, this act will contribute positively to better livelihood of oil palm smallholders in the future. It has been quite long time since the oil palm smallholders are not well cared for. The inauguration of this act allows relevant parties to be committed to the protection and empowerment the farmers in Indonesia.

Promoting participatory schemes of oil palm business has to synchronize with the context of the protection and empowerment of the farmers. Accordingly, initiatives in the oil palm sector in general must derive from the objective of strengthening oil palm smallholders. Farmers and or farmers' organization should have direct access to the market, as the actual goal is to gain market access for the oil palm yields in general, which are produced by the smallholders in particular.

Indonesian oil palm smallhodlers are most important stakeholders to contribute to the world's sustainable palm oil, as about 43% of the whole Indonesian oil palm producers are independent smallholders. Oil palm smallholders are therefore the biggest spotlight of the Indonesian oil palm development, including challenges and problems they have to face to substantially increase their involvement in the world's sustainability market.

Indonesian oil palm farmers are regarded innovative through their participation in the market transformation. Regrettably, the effort up to now is still limited within the environmental context, while social perspective is still an abstract theme. Hence, social transformation in the market would lay a solid ground for the farmers to be significant actors in the market and support the environmental initiatives. Notwithstanding the above, the following are facts on oil palm smallholders to be well thought-out and jointly resolved by all oil palm stakeholders:

1. Indonesian oil palm smallholders manage more or less 4.3 million ha oil palm plantation out of ±9 million ha (2012).
2. Based on their land banks, independent smallholders manage 3.1 million ha land, which is more than half of the scheme smallholders. These independent smallholders are not specifically taken care of by the government.

   The other 1.2 million ha land belong to scheme smallholders; they are coordinated under the partnership with private sector or Nucleus estate. Referring to the Minister of Agriculture's decree No. 26/2007 on the plantation business licensing, the partnership scheme must allocate 20% of the plantable area of the nucleus for the smallholders.
3. Considering the strategic role of the oil palm growers, large company is superior in the technicalities of production and management of plantations. However, the company's field operation faces a number of challenges too, such as social, environmental, and economic issues.

   When worse comes to worst, the company's productivity and extensification program is at issue such as global warming affected by forest conversion, peat land exploitation, eradication of the right's of indigenous people, and many more social issues.
4. On the other hand, market access is serious challenge for the smallholders. Independent smallholders are largely questionable in the

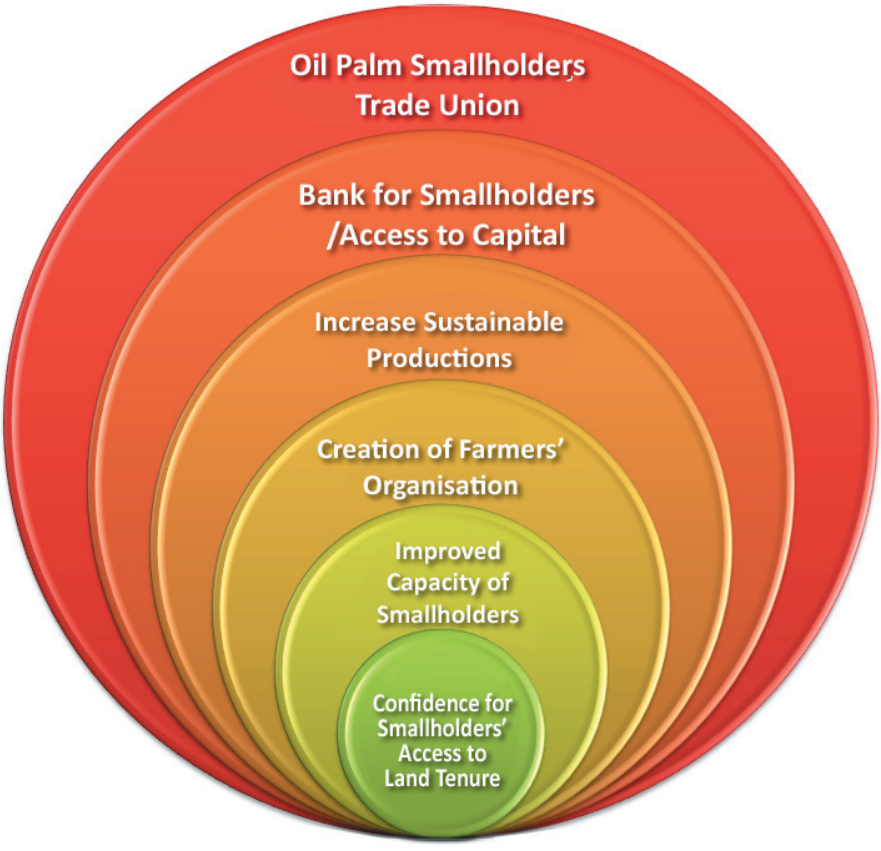
context of Good Agriculture Practices (GAP). They lack of supporting elements such as farmers' organization, direct financial access, and farmers' sustainability competence to meet market demands. Ways to work on these deficiencies are best through farmers' organizations or cooperatives.

It is therefore very strategic to empower independent smallholders in order to effectively respond to the market requirements of Sustainable Palm Oil. Challenges today need to be confronted with innovation and inventions in more productive and effective ways. Enhancing independent smallhoders' will not only enlarge their contribution to sustainability practices, but ensure the sustainable products supplied to the market.

And yes, promoting the initiative as such is not an easy task. A lot of challenges to allow transformation of the long-lasting estate management system come from the independent farmers themselves and other parties, such as the government or the plantation company. The following is our alternatives to instigate the breakthrough in the oil palm plantation management system.

A. Stakeholders: Opportunity & Challenges

Smallholders	Government	Company
❖ **Future:** enhanced capacity of smallholders, farmers organization, and guaranteed market access ❖ **Current:** lacking mills for small-scale plantation, and fulfillment of 20% in the partnership scheme	❖ **Future:** policy to provide and assure the access for smallholders ❖ **Current:** no assurance for access and smallholders are still disadvantaged in financial access, certificate of managed land site, etc.	❖ **Future:** more in downstream business and technology inventiveness in palm oil processing ❖ **Current:** dominates up- & downstream, granted friendlier access by the government through regulations



B. Bridging the Smallholders to the Sustainability Market

When promoting the smallholders, it requires 5 pillars of battle. Yes, challenges and hurdles from all parties are possible; however, all stakeholders have to be committed and motivated to at least accomplish some of the elements in each pillar for mutual prosperity. The government has to be there, to invent in new ideas and be courageous. Private sectors need endorsement to focus more in the downstream and help national industries.

The biggest risk of the oil palm business lies on the sustainable supply to the market in accordance with sustainability principles and criteria. Expecting that the private sectors will set of scales between trade bariers and sustainability enforcement is not clear-cut. While these efforts are ongoing, smallholders are best alternative solution to step forward and minimize the gap between supply and demand, and sustainability practices.

It is therefore advisable that all stakeholders invent in the support for the smallholders as depicted in the 5 pillars of the oil palm smallholders' business development as follows:

1st: Empowerment of Oil Palm Smallholders

Smallholders' empowerment are mowadays practicable through a number of groups' initiatives, such as to increasing the awareness on the importance of Good Agriculture Practices (GAP) and setting up long-term goals for the smallholders' productivity.

- Smallholders need to be introduced to alternatives of participatory solutions while creating their long-term business plan. This shall be the solution for smallholders to not end up only as farmers and supplier of the palm oil brokers and or mills.
- Smallholders need to understand on the trade barriers set by oil palm companies, such as sortation, and how to address the problem.
- Smallholders need to learn about current global market, its demands and opportunities, including market access strategy and conquering trade barriers.

2nd: the Creation of the Smallholders' Organization

Law No. 19/2013 gives the definition of the smallholders' organization as "an organization, which is developed and fortified by, among, and for the smallholders, in order to empower and campaign for the

interests of the smallholders.

Smallholders' organization in law No. 19/2013 works to succeed smallholders' activities, which are initiated by, among, and for the smallholders in order to increase their productivity and efficiency of the smallholders business, both incorporated or un-incorporated. Conclusively, smallholders' organization is key strengthen the oil palm smallholders and achieve their goals.

Smallholders' organization is key to reach the oil palm smallholders' independency. The organization does not only deal with the administrative and management of its members. The organization has bigger role to consolidate the small-scale oil palm plantation to become larger, hence profitable. This can be a solution for the smallholders working individually in their small and different estate sites. Smallholders' organization will unite these kinds of smallholders into a shared business plan.

Sources: SPKS Labuan Batu Utara

When smallhodlers have common objective and they share the situation, they will be dependable and proceed in a solid group. This is the typical battle of independent or small-scale smallholders. Would they move forward to become more important actors, they have to share the view and build a concrete initiative together in response to the market demand.

3rd: Increase sustainable production

To get into the direct market access, smallholders have to integrate their plantation with the sustainable plantation management.

SPKS views that the smallholders will not have significant problems to apply the sustainability principles, as they don't have to deal with social and environmental problems like large plantation companies. Their only challenges are more technicalities; they are supporting inputs for the Good Agriculture Practices (GAP), such as oil palm seedlings, fertilizers, or a counseling agent in terms of a farmers' organization.

The principle of sustainable palm oil production needs to be informed and familiarized to the smallholders, to integrate the standard into their production objective. The smallholders will be eager to join the initiative if they feel that it is not burdensome and their daily agronomy inputs are provided. Moreover, the smallholders will be able to have a direct market access if they could increase their productivity.

4th: Encourage the access to capital through establishment of Bank of Farmers

More advance target of this initiative is the availability of Bank of Farmers. The law No. 19/2013 on the protection and empowerment of farmers brings up the warranty of access to capital for the farmers as well as the insurance of agriculture business risk. These are additional opportunies of business expansion of the finance agencies to found

the bank for farmers. Law No. 19/2013 discloses two financial business opportunities related to smallhodlers:

- Finance Agency is business institution created to serve as financing enterprise, such as grant of capital or funding to facilitate farmers in the farming activities.
- Agriculture Business Risk Insurance is an agreement between smallholders and the insurance company to bind into the farming business risk.

These are realistic guideline but not sufficient, if the finance agency or banks do not directly give loan to the smallholders.

Let us take example of the financing model for replanting through the revitalization of plantation. The revitalization policy requires that bank loan is granted if guaranteed by a third party, which in practice is usually the plantation company.

Cultivation practices in the field do not always go along with the regulation. While the Indonesian government has prepared the mechanism for the rceation of a farmers' bank, support and endorsement from the actors on the field are fundamental.

In that case, what could be the solution?

1. A farmers' economic institution plays very important role to develop alternative models if the farmers' bank is unlikely to create. Saving and Loan are the financial mechanisms that farmers who are members of the economic institution can save their income in or take loans through intertwining subsidy.
2. Further financing alternative next to saving and loan is to work with international banks which are sympathetic and supportive to the development of sustainable supply chain for the agriculture products, including palm oil.

The credit capital or funding is applicable only for plantation business development, to increase the productivity of yields, or to build a processing mill for independent smallholders.

These are immense business opportunities, as the Minister of Agriculture's regulation No. 26/2007 obliges that a processing mill is built to take account of the palm oil supply from the farmers around the mill. The policy obliges that 80% of the mill's supply comes from surrounding farmers and 20% from the mill's own plantation.

If the farmers can contribute more and have shares of the mill's ownership, there is a huge opportunity to bring the outcome to the next level that is the Palm Oil Farmers' Trade Union.

5th: Creation of the Oil Palm Smallholders Trade Union

Although Indonesia has the Palm Oil Commission or KMSI (Komisi Minyak Sawit Indonesia), there is no smallholders representative in the commission's structure.

There is no specific Palm Oil Trader Organization in Indonesia so far, neither government-sanctioned nor private sector, or collectively. The palm oil trade has been indicidually carried out by each company with access to the international market. While some other companies without such market access and value-addedd industries, perform the traditional business by supplying larger companies with various downstream industries.

Several palm oil organizations are busy with their political agenda, inter alia to dispute the so called negative and black campaign from overseas.

For the future of independent oil palm smallholders in Indonesia, it is very important to create a trade union which accommodates their concerns and facilitate the palm oil trade in the international market. However, this can be fulfilled only if the earlier instruments are there, in particular the smallholders' palm oil mill.

Sources: SPKS Tanjabar

C. Fundamental Market Transformation is on Demand

These days the market is transforming or redirecting its transformation process. The sustainability terms based on environmental and social elements are incorporated in the market demand for palm oil products.

The oil palm plantation business claimed to be responsible for deforestation and biodiversity loss that contribute greately to the climate change, has been pressured and guided to apply Good Agriculture Practices to help minimize the impact of the forceful climate change. These are good intentions for the oil palm growers in the development countries like Indonesia to participate in the global agenda to save the earth. One should acknowledge that sustainability agenda of palm oil products have promoted the palm oil business worldwide, including the environmental engagements to heal the world and make it a better place.

As Palm oil is inevitable in many products and disputably, it is still best ingredient compared to other vegetable oils. In spite of this, with

unconstructive on-farm business process, advantageous pathways of the palm oil production is obligatory. These have been addressed in a number of initiatives focusing on reducing the environmental and social impacts of oil palm business.

If the perfect picture has been designed, what still needs to be done?

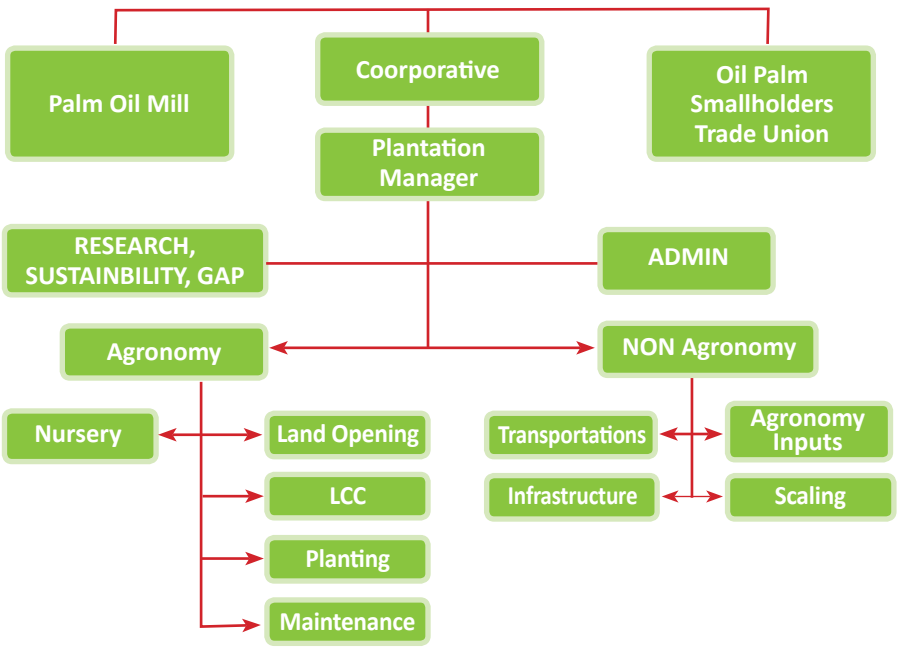
Oil palm producers are divided into two: large company and smallholders. These two actors represent huge livelihood gaps, inter alia as a result of the hectares of their oil palm business capacity and technical barriers faced by the smallholders and not experienced by large companies.

Hence, what needs to be done is market a market transformation. Fundamental market transformation is to positively contribute to the independency endeavors of the smallholders and become actor of the palm oil trade in the international market. This is the new direction of the palm oil market transformation.

With the market transformation by empowering the oil palm smallholders to be major actor of oil palm growers, the market also prevails for sustainable production of palm oil. Environmental protection, GAP implementation, and elimination of social problems will take place accordingly. The fulfillment of the law no. 19/2013 on the protection and empowerment of farmers is accomplished correspondingly by facilitating the smallholders to build or have their own processing mill.

Key for an advance market transformation is inventiveness. This alternative solution of smallholders' empowerment needs financial assistance from funding agencies or banks. Hence, supports from all stakeholders to commit to sustainable palm oil production and supply chaina are most powerful and effective through the smallholders. Likewise, the smallholders are expected to share the power holder in a farmers' organization, including the responsibility and obligation toward sustainable market access.

Below is one of the alternative solutions of work relations of oil palm actors.



Sources: SPKS

The smallholders' organization above represents an ideal alternative model as discussed earlier. Function is crucial to develop a professional organization which is contextualized with the market transformation. Hereto, smallholders need provisions of capital, continual technical assistances on GAP, organizational development, and innovative business development.

With this alternative market transformation, challenging market demand that is full of twists and turns will shift their focus from revealing the on-farm problems to driving the essential palm oil suppliers to meet market demand towards sustainable palm oil products and responsible supply chain.

SPKS the Organization

- The role of oil palm smallholders in solution making structure of the palm oil trade has been not significant. The smallholders are regarded only as palm oil producers. This inspired SPKS to engage the smallholders into relevant position as actor amongst the palm oil stakeholders, while subsequently help strengthen smallholders' organisation by the smallholders themselves.
- SPKS exists due to the fundamental reasons concerning land tenure and smallhodlers' access to the agriculture inputs as well as the social inequality.
- Eventually, the once negative concerns gradually move forward to more positive tracks. Despite lingering unresolved problems such as low productivity of the smallholders, traditional plantation management, fewer agriculture technology application and development, delicate bargaining position of the smallholders, infrastructure in the plantation that is not representing GAP (Good Agriculture Practises), etc. By optimism and opportunity toward market transformation, SPKS motivates the smallholders with a variety of approaches. Slowly but sure the progress is becoming more evident.
- SPKS learned that the challenges to be resolved require the courage and commitment from the smallholders, supported by palm oil stakeholders, and the strength of mind to go through all the outstanding impracticalities.

Why Empowering the Smallholders?

- It is very prospective to decide on smallholders in the palm oil business. They are managing 4.3 million ha plantation in the middle of the whole oil palm growers in Indonesia.

- SPKS is confident that the smallholders have the potential to grow further, particularly with the opportunity of market transformation that is equitable, non-discriminatory and accountable. When the market is transformed, there must be good environmental governance in place as well as structural transformation in the plantation management. Hereto the smallholders are worth mentioning.
- Smallholders participatory in the harmonization of environmental and social governance is key. Should the smallholders be entrusted with bigger responsibility and function that is also more conducive in the global transformation, less nuisance were predictable.
- The members of the organization SPKS are oil palm smallholders holding the vision for independency, sovereignty, and prosperity.
- In terms of function, SPKS works in collaboration with respective stakeholders such as oil palm company, palm oil processing mill, bank, government, NGO and actors in the palm oil market.
- SPKS puts forward the fair and accountable market transformation concerning the environmental and social issues, including climate change, by regarding the smallholders as relevant stakeholders.
- Since its establishment in 2006, SPKS has made a number of achievements. SPKS promotes collaborative actions that is rational and analytical to work with the other oil palm stakeholders (company, processing mill, bank, government, NGO and actors in the palm oil market). They share the vision and mission of creating sovereignty, prosperity, and independency of the oil palm smallholders.

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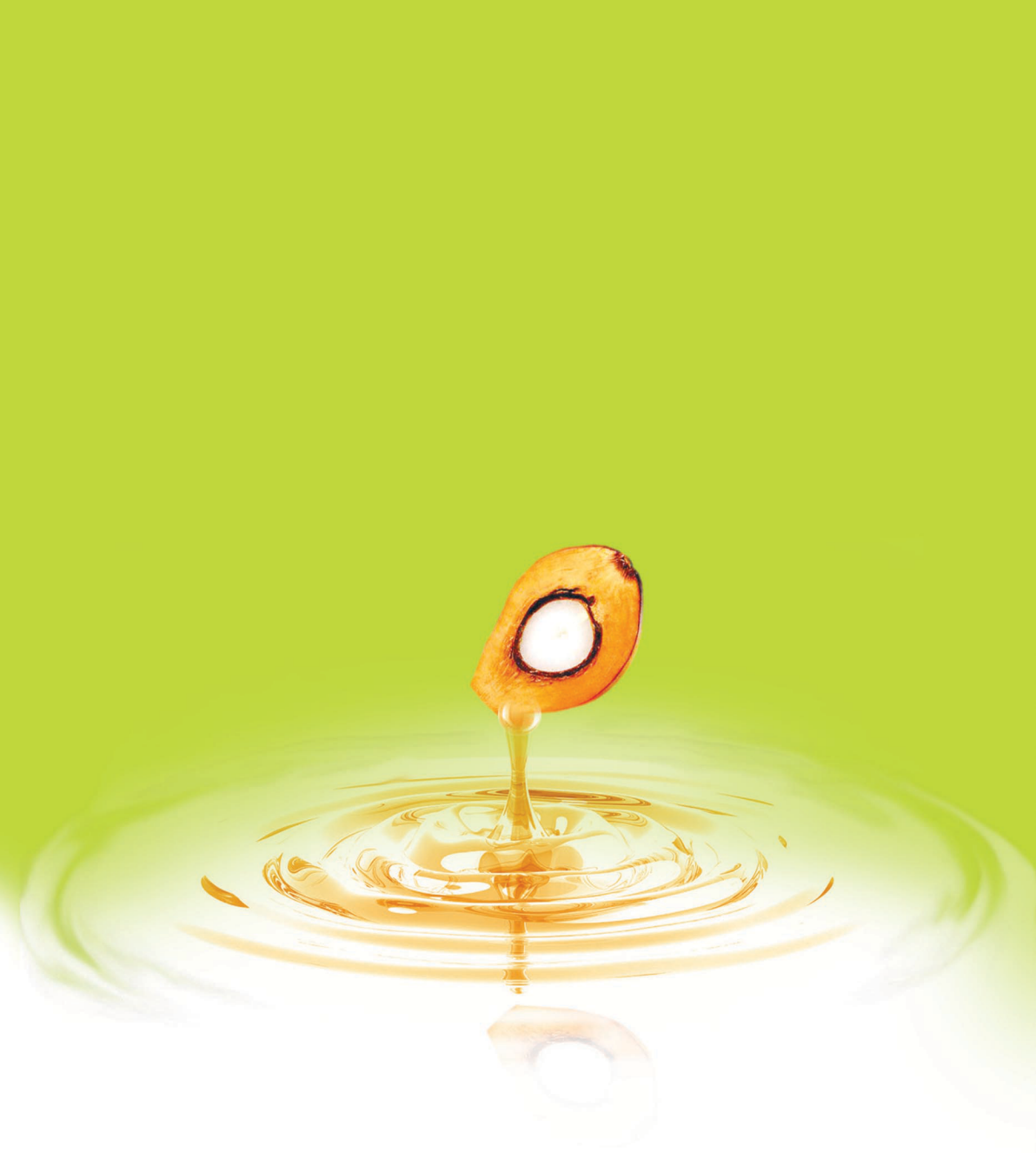

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