Corporate Social Responsibility in Indonesian Plantation

Submitted by: Indonesia
CORPORATE SOCIAL RESPONSIBILITY (CSR)
IN INDONESIAN PLANTATION

Presented at
Public-Private Dialogue on Investment 2013
Asia Pacific Economic Cooperation (APEC)
The Ritz Carlton, Mega Kuningan
Jakarta, 30 January 2013

DIRECTORATE GENERAL OF ESTATE CROPS
MINISTRY OF AGRICULTURE
REPUBLIC OF INDONESIA

INTRODUCTION

PLANTATION DEVELOPMENT IN INDONESIA

- Plantation in Indonesia has been establishing since colonialization era by big companies (Dutch Enterprises and Foreign Private Enterprises).
- Location and commodities were mainly in:
  - Sumatera (Rubber, Coconut, Oil Palm, Tea, Coffee, Pepper, and Tobacco)
  - Jawa (Sugarcane, Coconut, Coffee, Cocoa, Tea, Tobacco)
- In 1950, ownership of the Dutch Enterprises and other Foreign Private Enterprises were shifted to Government of Indonesia (State-Owned Enterprises).
- In New Order era, the government give full support and the State-Owned Enterprises, Private Enterprises and Smallholder estate crops developed all together.
- Estate Crops Sub-sector become the main pillar of national economic development.
THE ROLE OF PLANTATION

- Plantation plays important role in national development (economic, ecological and socio-cultural)
- Based on Act No. 18/2004 on Plantation:
  - Economically, increase prosperity and welfare of people and strengthen structure of region and national economic;
  - Ecological, improve soil and water conservation, CO2 adsorbion, produce Oxygen, buffer of the protected areas;
  - Socio-cultural, unify Indonesian society.

CHARACTERISTIC OF PLANTATION

- Consists of 127 commodities
- Main Crops (15 commodities), they are: Rubber, Coconut, Oil palm, Coffee, Cocoa, Tea, Sugarcane, Tobacco, Cashew, Pepper, Clove, Cotton, Jatropha, Patchouli, and Sunan Candle Nut.
- Development Scheme:
  - State-Owned Enterprises (6%)
  - Private Plantation (22%)
  - Smallholder Plantation (72%)
- Farmers Involved = 20,888,612 Households
- Farmers’ income = USD 1,702/Year
- Export value = USD 35.2 Million
PLANTATION AREA

- **Area and Production (2011)**
  - Total Area: 22,089,473 Ha

- **Main Estate Crops (15 Commodities)**
  - Total Area: 21,312,646 Ha (96.5%)

- **Oil Palm Plantation 2011 (Area and Production)**
  - Total area: 8,992,824 Ha (38.2%):
    - State-Owned Enterprises: 678,378 Ha (52.07%)
    - Private Enterprises: 4,561,966 Ha (52.86%)
    - Smallholders: 3,752,526 Ha (40.39%)
  - Total production of CPO: 23,096,541 Tons
    - State-Owned Enterprises: 2,045,562 Tons (8.61%)
    - Private Enterprises: 12,253,055 Tons (52.86%)
    - Smallholders: 8,797,924 Tons (38.85%)

---

OIL PALM PLANTATION

- Oil palm plantation has been developing since 1911 by big Foreign-Owned Enterprises. Growing relatively slow and only in northern Sumatra and small area in southern Sumatra.
- In early Five-Year Development Plan (REPELITA) Phase I (1969) total area was only 119,520 Ha. Production could not fulfill yet the domestic need of cooking oil (partly was coconut oil).
- Since 2006, Indonesia has been the biggest producer of oil palm in the world. Area production spreading out in 22 provinces.
- In 2011, total area was 8.9 M Ha (Smallholders 3.6 M Ha or 41%, State-Owned Enterprises 0.6 M Ha or 7%, and Private Enterprises 4.6 M Ha or 52%. Total CPO production 23.6 Tons.
- Potential resources, prospect of business, readiness, serving capability, support of agribusiness development system of oil palm is still going on and will be developing continually.
**PROBLEMS AND CHALLENGES**

- **Main Problems:**
  - Increase of population (1.49%)
  - Rapid increase of technology and information
  - Limited resources of land, water, and energy
  - Climate change/global warming – Anomaly Impact
  - Limited land ownership and land status
  - Limited access on capital
  - Plantation business obstacles:
    - Social conflict (land occupation, riot and yield looting)

- **Main Challenges:**
  - Dynamic change and development of environment
  - Pressure of global markets

---

**GOVERNMENT POLICY**

1. **Nucleus Estate Smallholder (NES) Implementation**

   - Development scheme of plantation has been changed. Private companies involved directly to guide smallholders.
   - New era of plantation has been initiated as Indonesia implemented *Nucleus Estate Smallholder (NES)* model in 1977-1979 to develop Smallholders, especially rubber and oil palm based on Presidential Decree No. 11 Year 1974 on the Second Five-Year Development Plan (PELITA II).
   - Under NES Scheme, the State-Owned Enterprises act as *Nucleus* and Smallholders is *Plasma*. Then this project was financed by Government national bank.
   - Farmer Groups of Plasma or Partnership are designed under cooperation with Nucleus companies concerning transfer of technology (agronomic practises), processing, market and financial access (price and credit).
Considering positive impact of this Project, based on Presidential Decree No 1 Year 1996, NES also developed in transmigration area (NES-TRANS Scheme).

Under cooperation between bank and local government, NES-KKPA (Cooperative member) also was develop.

Initially, rubber and oil palm were the main crops, eventually oil palm is predominant.

Recently, total area of NES (oil palm) 920.578 Ha, comprising of NES/PIR-BUN (160,816 Ha), PIR-TRANS (386,537 Ha) dan PIR-KKPA (373,225 Ha).

Under partnership scheme, depending on the MoU, farm management after conversion is done in two ways:
- Managed by Nucleus Company; or
- Totally managed by farmers cooperatives, but under supervision of Nucleus company, while processing and marketing done by Nucleus Company.

---

2. Duty of Plantation Company

- Regulation:
  Rule of Minister of Agriculture:
  Number : 26/Permentan/OT.140/2/2007
  Dated : 28 February 2007

- Article 11:
  - Licensed Plantation Company has duty to develop plantation for smallholders surroundings at 20% minimum of its total area.
  - The development scheme : by credit, grant, or share-profit.
  - Conducted coincide with company plantation development.
  - Smallholder development plan has to be endorsed by Regent/Mayor

- Article 15:
  The company has to conduct partnership in processing and marketing or partnership on business, such as Fresh Fruit Bunch transportation, procurement of goods (harvest tools, agrochemicals, etc.)
3. Conduct Sustainable Plantation Development

- Declaring the Rule of Minister of Agriculture:
  
  **Number**: 19/Permentan/OT.140/3/2011  
  **Dated**: 29 March 2011  
  **On**: Indonesian Sustainable Palm Oil (ISPO)

- Implementing plantation production system in a sustainable manner based on 3 Pillars (3P):
  
  - **Profit** - Economically viable
  - **People** - Socially acceptable by empowering and lifting social prosperity
  - **Planet** - Environmentally sounds

Cont’d ......

- **ISPO Requirement**:  
  - 7 Principles, 41 Criterion and 128 Indicators  
  - Company has to be able to comply with 128 indicators

- **ISPO Prerequisite**:  
  Oil palm plantation company can apply for ISPO Certificate after achieving Grade I or Grade II or Grade III based on Company Performance Assessment.

- **ISPO**:  
  - Mandatory to be implemented by all oil palm companies (State-Owned Enterprises and Private Enterprises) for smallholders is still on progress.  
  - Have to be implemented by 31 December 2014 (Hold ISPO certificate or on-going audit/assessment)  
  - Company of oil palm plantation that has not implemented ISPO yet up until 31 December 2014, will be degraded to be Grade IV.
Implementation of ISPO (Principles 4, 5, and 6)

- **Principle 4: Responsibility to Workers**
  - Occupational and Health Management System
  - Worker welfare and capacity building
  - The use of child workers and discrimination of workers
  - Establishment of trade union
  - Encouraging and facilitating the establishment of a workers cooperative

- **Principle 5: Corporate Social Responsibility (CSR)**
  - Social commitment to community and develop potential local wisdom
  - Empowerment of traditional community/indigenous people

- **Principle 6: Community Economic Empowerment**
  - Development of local enterprises

**Mandatory ➔ Has to be implemented before 31 December 2014**

---

**CORPORATE SOCIAL RESPONSIBILITY (CSR)**

1. **Definition**

“A management effort conducted by company (business) in order to achieve sustainable development based on equity of economic, socio-cultural and environmental by minimizing negative impact and by maximizing positive impact of every aspect”
2. Issue in Oil Palm Plantation

- Oil palm plantation is labour intensive industry
- Oil palm plantation uses abundant quantity of natural resources (land, water)
- Oil palm plantation adjacent to many society (villages)
- Oil palm plantation uses ex forest land.

Does it happen in other industries?

3. Government Policy on CSR

- **Act No. 40 Year 2007 on Limited Company**

  **Article 74 :**
  - Obligation (duty) to separate out some of company profit for Social and Environmental Responsibility implementation which is called Corporate Social Responsibility (CSR).
  - The Limited Company that deals with or related to exploitation of natural resources must conduct CSR;
  - CSR is obligation of the Limited Company that has to be allocated and calculated as budget of the company that will be performed by considering its properness;
  - The Limited Company that does not conduct its duty will be punished according to Act and Law.

  ➔ **Government Rule Number 47 Year 2012**
Act No. 9 Year 1995 on Small Business

Article 21:
Government, business company and society allocate budget for developing small business, comprising:
- Bank credit
- Loan of non bank institution
- Financial capital
- Loan for separation of profit of the State-Owned Enterprises
- Grant, and
- Other kind of payments

Act No. 19 Year 2003 on State-Owned Enterprises

Article 88
The State-Owned Enterprises can separate some of its net profit for development of people surroundings.

Implementation Guidance:
- Renewed with Regulation of State-Owned Enterprises No. 05 Year 2007 on the Partnership Program of the State-Owned Enterprises with Small Business and Environmental Building Program known as of Partnership and Environmental Development Program.
4. Implementation

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Investment</td>
<td>The strategic investment of the company to local people/society</td>
</tr>
<tr>
<td>Company Partnership of Society</td>
<td>Consider local people as one of the stakeholders and partners in developing company partnership</td>
</tr>
<tr>
<td>Environmental Management</td>
<td>Good management of environment surrounding working area</td>
</tr>
<tr>
<td>Management of Working Area</td>
<td>Manage working environment as part of living area of company</td>
</tr>
<tr>
<td>Technology Investment</td>
<td>Technology investment which is effective/appropriate and friendly environment</td>
</tr>
</tbody>
</table>

IMPLEMENTATION OF PARTNERSHIP AND ENVIRONMENTAL DEVELOPMENT PROGRAM (2011 – 2012)

- Partnership and Environmental Development Program have been conducted by most of plantation companies (State-Owned Enterprises and Private Enterprises).

- **Partnership activities are:**
  - Empowerment of micro and small business of Plasma Farmer Groups and Cooperatives;
  - Business opportunity and improving oil palm production;
  - Help oil palm Plasma farmer groups in developing and improving their skill and knowledge.
  - Developing oil palm plantation of Plasma farmer groups (MoU).
  - Giving revolving credit, training, extension, and donation of ducks and goats for people adjacent to plantation area.
Environmental Development activities are:

- **Education**: Scholarship for basic school students up to university students, construction and rehabilitation of school building, educational equipment, training on skill and knowledge on farm management for farmers;

- **Health**: Health examination, health care, construction of health centers, health equipment, family planning;

- **Religion**: Construct and rehabilitate mosques and churches building and its facilities, circumcising;

- **Youth**: Management and leadership training;

- **Environment**: Construct infrastructure, growing trees;

- **Donation**: Animal husbandry – duck and goat, and cooking oil for people adjacent to plantation area.

CLOSING

- Implementation of NES Model on plantation development, significantly give impacts:
  - Increase farmers’ income (5.08% during the last 3 years) (2010 = US$1,660; 2011 = US$1,780; and 2012 = USD1,832
  - Improve skill and knowledge of farmers in managing plantation
  - Ensure implementation of sustainable plantation development
  - Enhance regional development
  - Poverty alleviation
  - Improve quality of human resources (farmers’ family) through formal education

- During the last 2 years, many plantation companies that have been conducting CSR. However, they have not submit yet the implementation report. People adjacent to plantation area receive significant impact.

- It is expected that CSR will be conducted continually by more plantation companies for social and environmental responsibility and doing business together with people surrounding.
THANK YOU