

Public and private sustainability standards in the oil palm sector

Compliance barriers facing Indonesia's independent oil palm smallholders

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Key messages

- Many independent oil palm smallholders threaten to become alienated from formal markets because they lack the technical capacity and/or resources to comply with public and private sustainability standards.
- Since resolving compliance barriers will require targeted interventions, it is becoming increasingly important to better understand the types of barriers faced by different types of smallholders.
- This brief presents preliminary findings of research on sustainability, legality and productivity challenges arising from independent smallholder oil palm expansion in Riau, Central Kalimantan and West Kalimantan.
- Research demonstrates how frontier expansion is often driven by larger out-of-province and absentee farmers that engage in oil palm for investment purposes rather than by smaller farmers (e.g. less than 3 ha) dependent primarily on household labor.
- Findings show how smallholder legality issues – faced especially by smallholders whose oil palm operations more closely resemble that of businesses – constitute the most significant compliance challenge.

Introduction

Oil palm smallholders have become an increasingly dominant producer group in Indonesia, accounting for an estimated 40.8% of the total Indonesian oil palm acreage (DJP 2015). Most smallholders operate independently – often without technical and input support from corporate producers and outside the purview of the state. As a result, the activities of many smallholders have long been poorly regulated and supported. Independent smallholders are thus not only the least productive oil palm producers in Indonesia, but also likely to operate without proper permits and on lands that, legally speaking, cannot be cultivated.

In the past, the imperative to promote upgrading of smallholder production has been limited. Recently, however, private standards (e.g. corporate zero-deforestation commitments, Roundtable for Sustainable Palm Oil [RSPO]) and public standards (e.g. Indonesian

Sustainable Palm Oil [ISPO]) have proliferated. This trend threatens to further alienate smallholders from formal oil palm markets if barriers to compliance are not adequately resolved and economic, social, and environmental upgrading is not more actively promoted.

Many smallholders will need to formalize their operations and improve their production practices to meet the minimum compliance threshold. However, many face resource and capacity constraints and lack the ability to obtain the necessary legal documentation. Consequently, without external support, many smallholders will likely fail to comply.

The magnitude and nature of smallholder compliance barriers and how these may differ for different types of smallholders are yet to be fully understood. This lack of a comprehensive knowledge base on smallholder characteristics and associated challenges frustrate

efforts to formulate and scale appropriate interventions that address smallholder compliance barriers. To accommodate these knowledge needs, CIFOR is conducting research in three provinces in Indonesia on independent smallholder sustainability, legality and productivity challenges. In this Infobrief we present preliminary findings and policy recommendations of this research. The emphasis is on legality challenges, which early results show constitute the most important barriers to standards compliance.

Methods

Research activities focused since 2014 on three provinces with an abundance of independent oil palm smallholders: Riau, Central Kalimantan and West Kalimantan. These collectively account for an estimated 32.9% of Indonesia's smallholders. Two separate landscapes with significant presence of independent smallholders were selected in each province

(Figure 1). This was determined through smallholder mapping that involved photo-interpretation of Google Earth and Spot 7 satellite images, as well as on-the-ground validation.

To capture geography diversities, selected landscapes in each province were intended to represent two extremes on the forest transition curve. In *established agricultural areas*, deforestation had taken place decades ago, often unrelated to oil palm. In *frontier areas*, deforestation events were more recent, and oil palm likely played an important role.

Smallholder plots were subsequently selected through random spatial sampling. Across all landscapes, approximately 4500 plots were subjected to a rapid appraisal. A sub-population of 1300 farmers and their farms were surveyed in greater depth. Surveying activities have been completed in Riau, are nearing completion in Central Kalimantan and are ongoing in West Kalimantan.

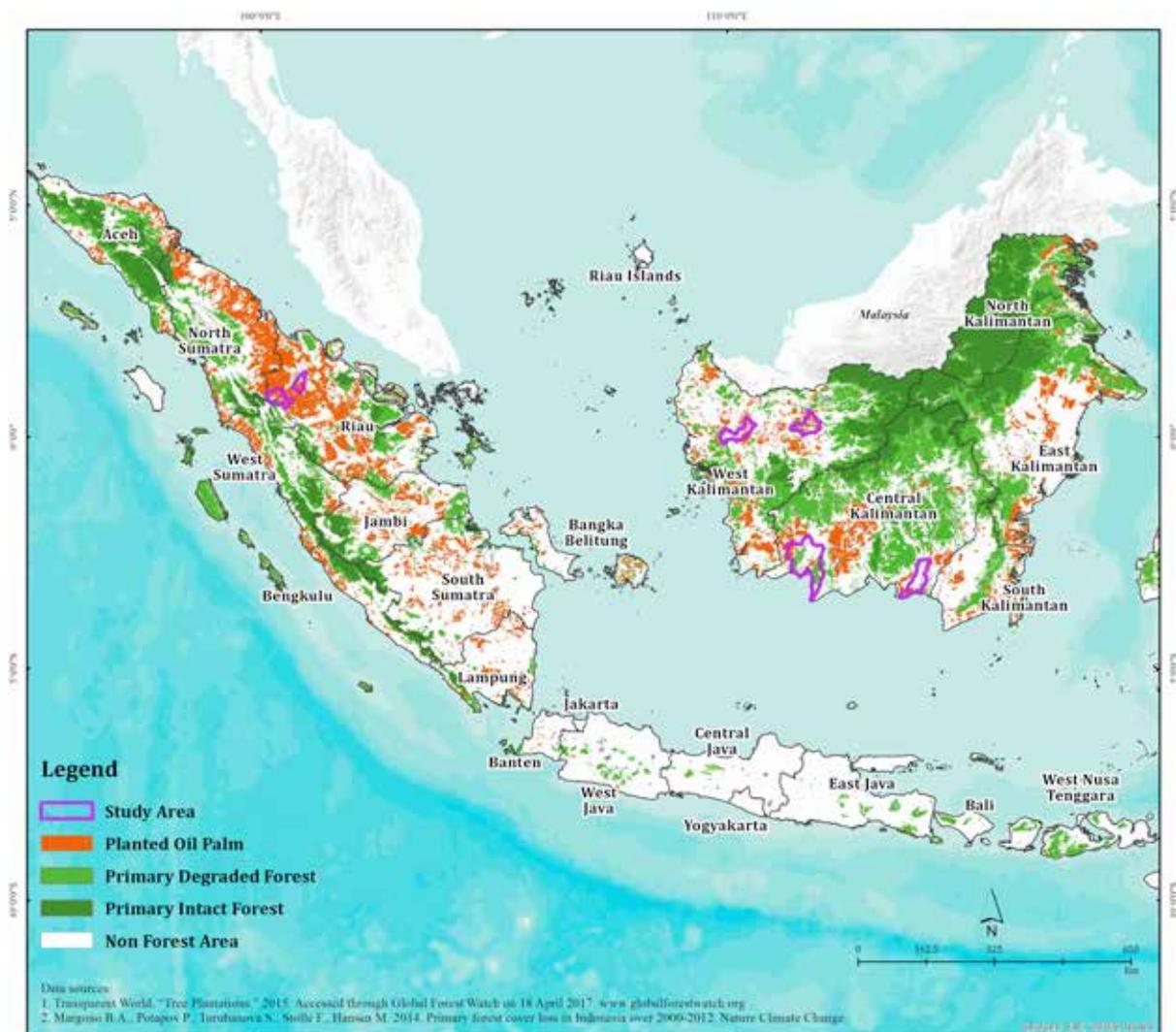


Figure 1. Study landscapes



Oil palm plantation in Central Kalimantan (Photo by Heru Komarudin)

Results

Smallholder distribution

Early results confirm that independent smallholders are indeed a highly heterogeneous population and differ significantly across landscapes. Data from Riau and Central Kalimantan, for example, clearly show that farms in frontier areas are on average significantly larger (5.6-9.1 ha) than in established agricultural areas (2.1-3.0 ha) (Figures 2 and 3).

Indonesian law considers smallholders with plantations exceeding 25 ha as businesses. These businesses account for between 30-60% of the smallholder land area in frontier areas, as opposed to 5-12% in established agricultural areas.

Large numbers of small smallholders (e.g. with less than 3 ha) are though still found in frontier areas. However, they are less likely to contribute to environmentally detrimental land-use changes than larger smallholders; often they are more inclined to concentrate in the more developed areas of frontier landscapes. In Central Kalimantan, for example, smallholders on peatlands (58.7% of the sample) were almost three times larger than those on mineral soils.

Similarly, those farmers with a high likelihood of having deforested to produce oil palm (31.2% of the sample) were more than twice as large as farmers that converted, for example, farmland, fallow or rubber.¹ Oil palm infrastructure and markets are less developed in frontier areas, where the cost of plantation establishment is comparatively high (especially when it involves conversion of forest- and/or peatlands in poorly accessible areas).

¹ Farmers likely to have been involved in deforestation are those where land was acquired prior to deforestation and oil palm was established within two years of deforestation.

As a result, those smallholders attracted to frontiers tend to be more capitalized, display greater entrepreneurship and are better able to navigate the extra-legal land markets prevalent in such areas.

Smallholder characteristics

Across the four landscapes, the majority of farmers originate from outside the province in which they have established plantations. This illustrates the prominent role of outside capital and stakeholders in driving oil palm expansion in Indonesia. Farmers of Javanese and Malay ethnicity tend to dominate in most of the landscapes. However, the Javanese farms tend to be comparatively small, reflecting the demographic that brought many to these provinces through transmigration schemes.

More than 90% of farmers with less than 3 ha remain or take up residence close to their plantations (e.g. within the community) and are actively involved in plantation management. The majority of the larger farmers that should legally register their operations as businesses, reside in urban areas outside the district of their plantations. Many of these farmers are therefore not likely to be directly involved in the day-to-day management of their plantations. Indeed, results show their plantations are almost exclusively maintained by hired labor. This highlights how many of these oil palm farmers meet neither the legal nor popular definition of smallholders (e.g. farmers that depend primarily on household labor). As opposed to many smaller farmers where oil palm cultivation plays an integral role in meeting basic needs, most of these larger farmers engage in oil palm for investment (and sometimes land speculation) purposes. Typically, they also own businesses unrelated to agriculture and/or are engaged in white-collar occupations.

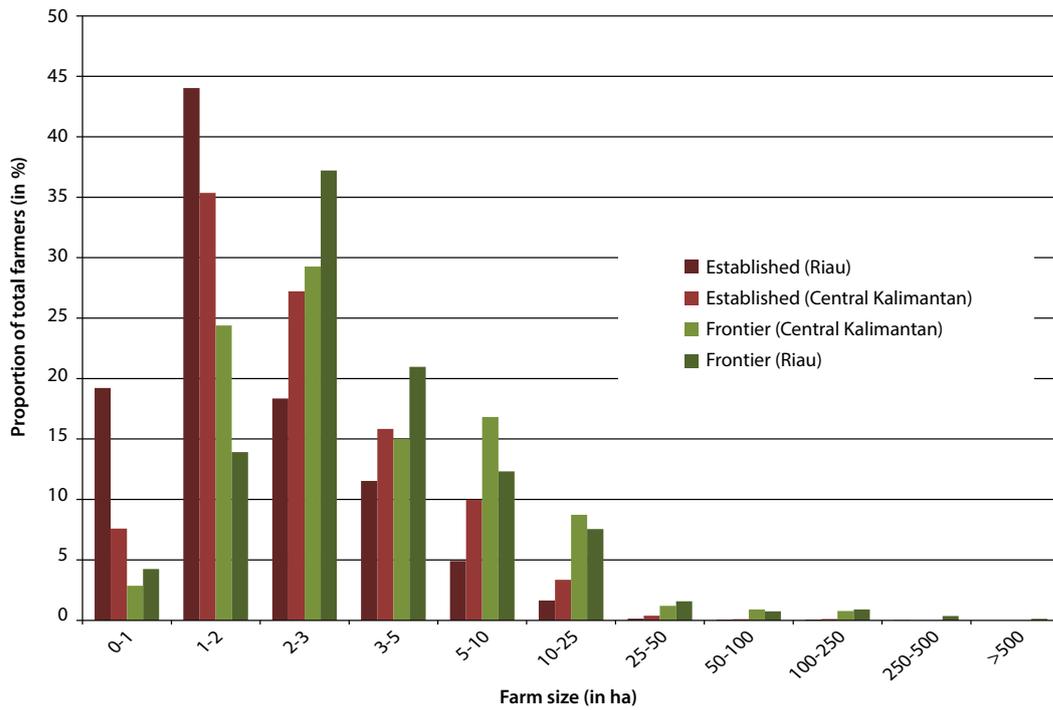


Figure 2. Farm size distribution, as proportion of total farmers

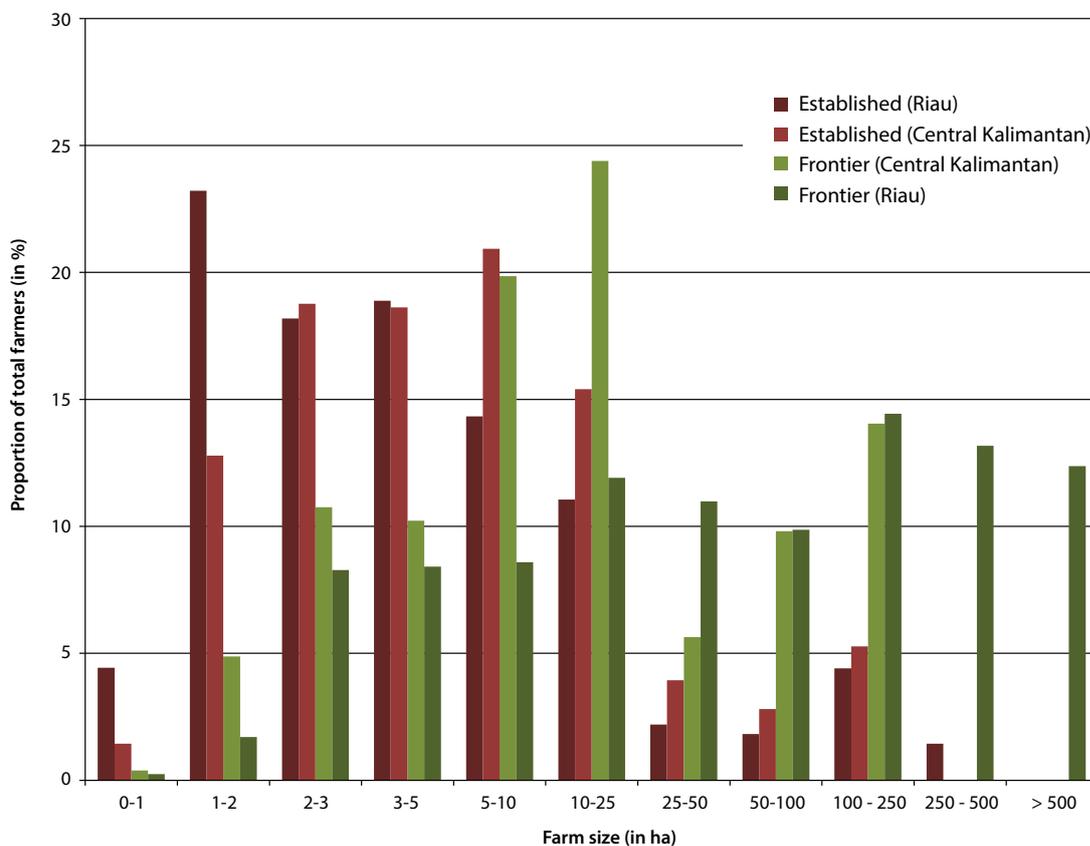


Figure 3. Farm size distribution, as proportion of total area

Legality challenges

In Central Kalimantan, only 11.1% of farmers with more than 25 ha had obtained the necessary plantation business license (IUP-B). Only 2.7% of those with under 25 ha had the necessary plantation certificate (STD-B). Farmers with larger holdings are often reluctant to apply for business licenses since that typically invites additional scrutiny.

In the case of plantation certificates, the district government is responsible for certification. However, in practice, district government lacks both resources and willingness to fulfill this responsibility. Additionally, many farmers are technically ineligible for these licenses/certificates (and land ownership documentation more generally) since they are not located on lands outside the state forest domain designated for non-forest uses (APL).

Almost three-quarters of smallholder oil palm in the established agricultural areas is located on APL. In frontiers, however, most smallholders are located on state forestland (Figure 3). On average, farmers on state forestland are, in each of the landscapes, between two and five times larger than those located on APL. The probability of being located on APL strongly decreases as farm size increases (Figure 4).

This highlights how encroachment onto state forestland is more likely to be motivated by accumulation rather than need-based strategies. Such lands are typically accessed through a complex network of public and private actors, commonly referred to as 'land mafia'. In Riau, 79.8% of farmers on state forestland managed to obtain some form of official land documentation despite being ineligible. This demonstrates the important role of extra-legal land access mechanisms in enabling frontier expansion.

Production practices were not comprehensively treated in the study. However, besides the widespread use of uncertified planting material, production practices were found to rarely render smallholders non-compliant. Rather, the above results show that facilitating compliance with ISPO and RSPO is foremost an issue of formalization and legality.

The vast majority of smaller smallholders may sometimes lack necessary land documentation and plantation certificates. However, with the right support, they can easily become compliant with public and private standards. It is typically larger smallholders occupying state forestland that risk alienation from formal markets.

A 2014 policy enables reclassification of state forestland if smallholders can prove occupation for more than 20 years. In principle, this could help make such smallholders compliant. However, results suggest that very few smallholders will be able to benefit from this policy. For example, none of the sampled smallholders in Central Kalimantan and only 1.8% of sampled smallholders in Riau that cultivate on state forestland have occupied that land for more than 20 years.

Additionally, ISPO-independent smallholder criteria will no longer apply to farmers that are legally required to register as businesses. Rather, these farmers must comply with the considerably more stringent criteria that apply to large-scale corporate plantations. For many, associated costs may prove to be prohibitive.

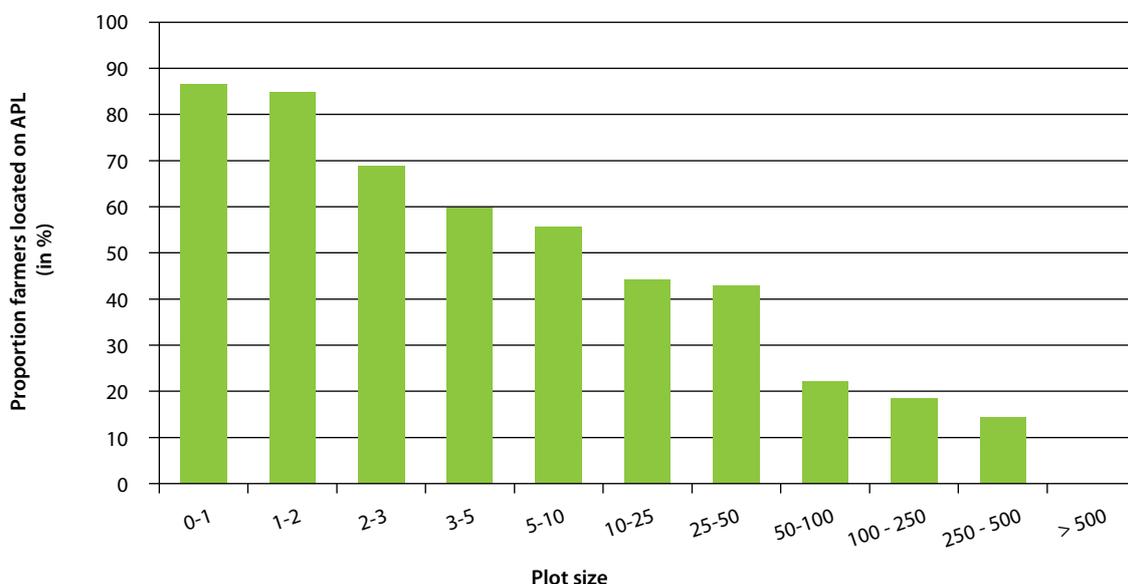


Figure 4. Proportion of farmers located on APL, by plot size

Recommendations

Analysis of preliminary data from CIFOR's ongoing work on independent oil palm smallholders has yielded a number of insights relevant to the emerging debate on smallholder standards compliance. Specifically, we recommend:

- Prioritizing of land and plantation certification programs by government and government agencies, especially for smaller producers that lack resources and capacity to formalize their operations.
- Allocating more resources to inventorying oil palm production on state forestland since a large number of smallholders located on state forestlands will in future be unable to comply with ISPO regulations, benefit from recent forestland reclassification policies or receive technical and financial assistance.
- Critically re-evaluating the conditions of the state forestland reclassification policy to enable more smallholders to benefit from reclassification opportunities to prevent smallholder disarticulation. Wholesale reclassification of heavily degraded state forestlands with limited rehabilitation potential is likely desirable from a local development perspective.
- Reviewing land allocation practices in frontier areas to develop systems that enhance transparency and accountability at district level and incentivize enforcement of forest regulations.

- Improving coordination between the increasing number of civil society organizations supporting formalization of independent smallholders to capitalize on potential synergies and establish upgrading priorities. This relates also to the harmonization of the large number of smallholder mapping activities, which tend to adopt different approaches, overlap geographically and remain poorly accessible to other organizations.

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