MADANI Insight

"The Picture of Indonesian Palm Oil Industry Answering Assumptions with Facts and Figures"

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HIGHLIGHTS

The Urgency for Commodity Diversification as the Key for Welfare and Food Security in Riau

The level of welfare and Food Security in Riau should rely on a variety of and balance between commodities planted by the community. It is too risky for the regional economy to rely on a single dominating commodity.

Palm Oil Plantations and Village Independence in Riau: A Data-Based Point of View

Contribution from palm oil plantations, both legal and illegal, to village development in Riau is still below expectations. Almost 90% of villages that are located around palm oil plantation area have not been receiving optimum benefits from the existence of palm oil plantations. Strong commitment from every stakeholder is required to resolve this issue.

A Closer Look at the Welfare of Palm Oil Smallholders

Every year, the expansion rate of smallholders' plantation is increasing significantly. However, their welfare is a different story. In Riau, the province with the largest smallholder palm oil plantations, only in 2017 did smallholders reach good welfare condition.

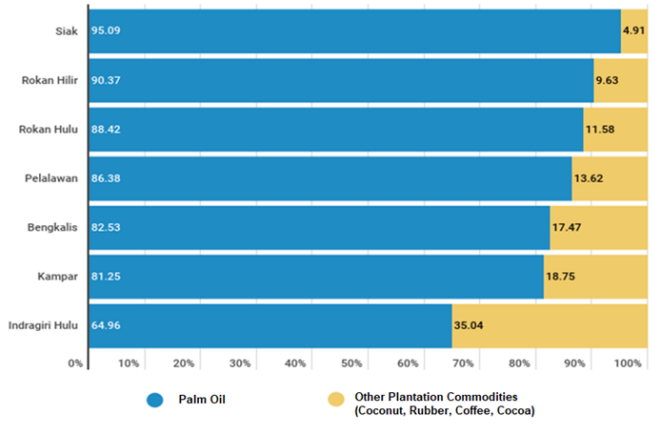
THE URGENCY OF COMMODITY DIVERSIFICATION FOR WELFARE AND FOOD SECURITY IN RIAU

Relying on a single commodity is too risky for the regional economy because the volume of agricultural production is unpredictable.[1] Moreover, with the dynamics of the fluctuating world market, the price of a commodity is not only determined by the amount of production in a region, but also by the volume of such commodities in the world market.[2] Under such conditions, there is a strong reason to promote diversification of plantation and agriculture commodities as an alternative that benefits the plantation and agriculture business and improve the welfare of communities and food security at the regional level.[3]

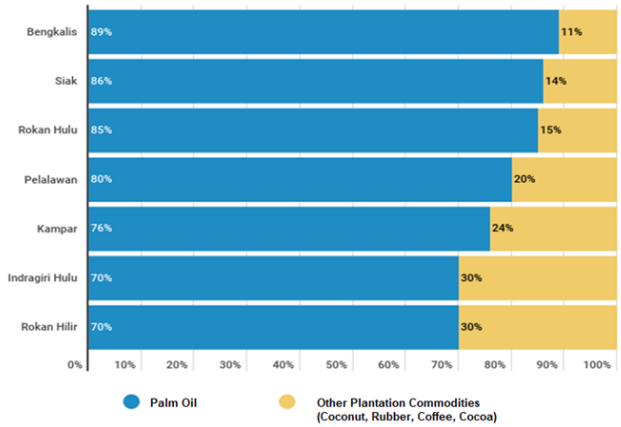
As the center of palm oil plantations with the total plantation area reaching 3.4 million hectares,[4] Riau has been relying on palm oil as the primary economic commodity for years. However, a statement from Riau Governor, Syamsuar has revealed that, as the biggest palm oil producer, the economic growth rate in Riau is still way behind other provinces. Syamsuar also stated that currently, Riau is still depending on supply from its neighboring area to fulfill its food demands.[5] Furthermore, to ascertain the urgency of diversification of plantation and agriculture commodities to improve the welfare and food security in Riau, one of the possible measures is to identify how significant[6] the contribution of palm oil to the plantation and agricultural commodities using official government data sourced from the Central Bureau of Statistics (BPS) and the regional planning documents. The next step is to examine how significant the contribution of palm oil commodity to the level of community welfare and food security in a region. In examining the community welfare, the commonly used parameter is the proportion of household monthly spending on food and non- food products[7] in a specific time period. Also, the Food Security Index (IKP)[8] from Food Security Agency (Badan Ketahanan Pangan) can be used as a basis for measuring food security level in a region.

From the analysis, there are seven (7) districts with a significant size of planted palm oil area compared to other commodities, both plantation and agricultural commodities. A more detailed information can be seen in the following Chart.

Comparation of Palm Oil Plantation Area with Other Plantation Commmodities and Food Agricultural Commodities in 7 Districts in Riau, 2018



Source: Riau in Number 2019 and Regional Mid-Term Development Plans from 7 Districts (Processed)



Source: Riau in Number 2019 and Tree Crop Estate Statistics of Indonesia; Ministry of Agriculture 2014 – 2018 (Processed)

[1] Satya.Gelar. 2010. Pusat Analisis Sosial Ekonomi dan Kebijakan Pertanian. Dilema Kebijakan dan Tantangan Pengembangan Diversifikasi Usahatani Tanaman Pangan. p. 224

[2] Ibid.

[3] "Diversification of commodities is necessary as one of the pillars for strengthening the food security. Food diversification can contribute to the improvement of food production capacity, farmers' income, and climate change adaptation and mitigation.". Sumaryanto. 2010. Pusat Analisis Sosial Ekonomi dan Kebijakan Pertanian.Diversifikasi sebagai Salah Satu Pilar Ketahanan Pangan. p. 100.

[4] Ministry of Agriculture.2019. The Decision of the Minister of Agriculture of the Republic of Indonesia No. 833/KPTS/SR.02/M/12/2019 on the Determination of Indonesian Palm Oil Cover of 2019.

[5] Redaksi. Halloriau.com. Jangan Tergantung Pada Sawit Gubernur Riau Minta Seluruh Bupati Kembangkan Tanaman Pangan. Accessed from https://www.halloriau.com/read-otonomi-125677-2020-02-13-jangan-tergantung-pada-sawit-gubri-minta-seluruh-bupati-kembangkan-tanaman-pangan-di-riau.html pada 20/02/20

[6] In the analysis, significant means when the size of palm oil plantation area in a particular District in Riau is more than 60% compared to other plantation commodities (coconut, rubber, coffee and cocoa)

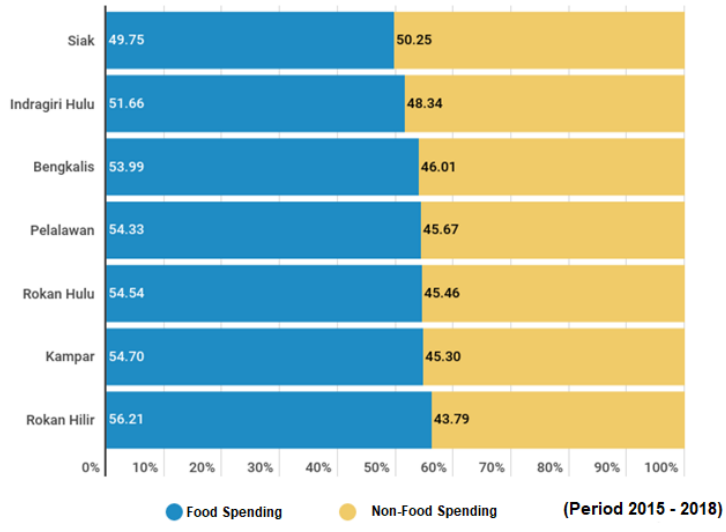
[7] "Composition of household spending can be used as baseline in measuring the economic welfare level of a community, lower percentage of food spending to the total budget indicates a better welfare level". BPS. https://sirusa.bps.go.id/sirusa/index.php/indikator/197

[8] Food Security Index (IKP) Nine Indicators used in formulating the IKP are derived from the three aspects of food security, namely, Food Availability, Food Affordability and Food Utility.

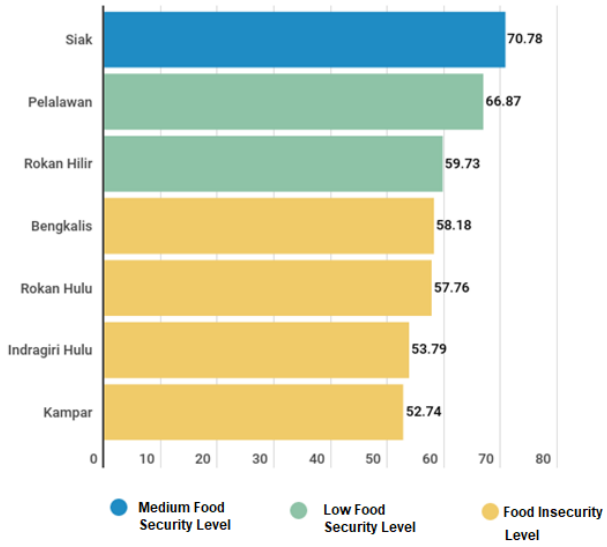
The above chart explains that from the total planted area of other plantation commodities in 7 districts, none of them exceeds 36% when compared to the planted area of palm oil. Siak is a district with the most significant number of palm oil plantations (95%). Palm oil plantation area in Siak reaches 347 thousand hectares while planted area of other plantation commodities is only 18 thousand hectares. In the 2nd position is Rokan Hilir district with the total planted area for palm oil that reaches 282 thousand hectares (90%) and planted area of other plantation commodities that only reaches 30 thousand hectares. Another five districts, such as, Rokan Hulu, Pelalawan, Bengkalis, Kampar and Indragiri Hulu are following with planted area for palm oil spread between 88% to 65% compared to the planted area for other plantation commodities. Meanwhile, the percentage of planted area for food crops is getting smaller. The percentage of rice fields and plantations that are dedicated for planting paddy and other horticulture crops in the 7 districts are less than 30% of palm oil plantation area. The planted area for food commodities in Bengkalis is only 23.6 thousand hectares (11%) while the planted area for palm oil is up to 187 thousand hectares. This number is followed by Siak with 56 thousand hectares (14%) and Rokan Hulu with 73 thousand hectares (15%), the percentage is obtained from the comparison with the palm oil plantation area in the respective districts. From the above description, it can be concluded that there is a large gap between the size of land for agricultural and plantation purposes and the planted area of palm oil commodity in 7 districts.

However, the significant size of palm oil plantation in the 7 districts is not in line with community prosperity and food security level. The details are shown by the following Chart.

Community Welfare Level and Food Security Index Value in 7 Districts in Riau



Source: Community Welfare Statistics in Riau (Susenas 2019)



Source: Food Security and Insecurity Map (FSVA, Food Security Agency of Ministry of Agriculture 2018)

Referring to the definition used by the Center Bureau of Statistics (BPS) on welfare, it was noted that the percentage of the amount spent on non-food consumption in a month compared to the entire spending can provide a picture regarding the welfare level of the community. Based on such understanding, from the seven districts with the significance of the vast palm oil planted area, Siak is the only district that meets the 'prosperous' criteria. However, with the percentage of palm oil plantation that reaches 95% compared to other plantation commodities and 86% compared to food commodities, the difference between non-food spending compared to food spending in Siak is only 0.5. Moreover, this fact shows that spending allocation from earnings received by the community in the 6 districts only covers their basic needs. While the allocation for non-food spending or tertiary needs such clothing, health, education, recreation, or saving is still low. A similar situation can be seen in the food security index. The fact is, Siak is the only district with good food security status, although it is still at medium level. Food security index in the other 6 districts are relatively low (Pelalawan and Rokan Hilir) and there are 4 districts categorized as districts with food insecurity (Bengkalis, Rokan Hulu, Indragiri Hulu and Kampar). Based on the indicator used by Food Securit Index (IKP), the low level of food security and food insecurity in the 6 districts are caused by the high ratio of consumption per capita to the net production per capita; high number of stunting infants, and high number of poor populations. Moreover, those districts are highly dependent on food supplies from other regions to fulfill their populations' food demand. In other words, most areas with high number of planted palm oil in Riau are still unable to fulfill the food demands of its populations.

The interesting fact is, Siak was the only district with a significant amount of planted palm oil area, both compared to the plantation and agricultural commodities, and also has a good welfare and food security level. It turns out that the good welfare and food security levels are not only generated from palm oil. There are many contributing factors. First, slow population growth.

Population growth rate in Siak between 2010-2018 is 3.01%[9]. This percentage was low compared to other districts in Riau, such as Pelalawan (5.43%) and Rokan Hulu (4.33%). Therefore, compared to Pelalawan and Rokan Hulu, the food demand in Siak is lower. Second, the percentage of palm oil plantation expansion in Siak during 2011-2018 period is 3.9%.[10] A relatively low percentage compared to the expansion rate in other districts such as Kampar (17.4%) and Pelalawan (4.17%) in the same period. The fact indicates that the district with low rate of palm oil expansion has better welfare and food security level. Third, productivity level of food crops in Siak, i.e. paddy, is the second highest in Riau (4.45 ton/ha) after Rokan Hilir (4.69 ton/ha)[11]. Moreover, the production of other food crops such as onion, chili, medicinal plants, and fruits are significantly increasing during the 2017-2018 period.[12] Fourth, regarding food security, in the last two years, Siak government has the initiative to balance the size of palm oil plantation areas with planted areas for paddy. During this period, 230 hectares of palm oil plantation area has been converted into rice fields.[13]

Balancing the planted area of agricultural crops such as rice and secondary crops is an alternative for commodity diversification in Riau to increase the welfare level and establish food security. Therefore, after the comparative observation on the Index of Farmer Exchange Value (NTP)[14] in Riau during the 2014-2018 period, it turns out that the NTP value for agricultural commodities is consistently ranked above 100 point.[15] But, the NTP value for smallholder plantation (including palm oil) during the same period is fluctuating. The NTP value only scored above 100 point in 2017. From then, the value is less than 100 points.[16] It means that income of palm oil farmers in Riau is smaller compared to the cost they have to bear during the production process (loss). They only enjoy the profit in 2017. In other words, farmers that are planting food crops have a better welfare level and more consistent income compared to the palm oil farmers in Riau.

From the above description, we can conclude that the urgency for diversification of plantation and agricultural commodities in Riau is critical. Furthermore, the result of this analysis can provide a picture that community welfare and food security should rely on the diversity of commodities and a balance of productivity level among the plantation and agricultural commodities that have been planted by the communities. The upcoming policy must consider the significance of other commodities in a particular area, to balance the focus of regulation issued by the policy makers towards other commodities to maximize the productivity of various commodities. This analysis can provide indications for the regional government to determine the priority of plantation development in relation to the urgency for diversification of commodities.

PALM OIL AND VILLAGE INDEPENDENCE IN RIAU
A DATA-BASED POINT OF VIEW

Palm oil plantation permit holders[17] have a strategic role in fostering sustainable development and welfare of village communities around their business location. There are at least 5 regulations that contain these provisions.[18] The regulations show the governance purpose from the Government, which expects a balance between exploitation of land and the welfare of the people who live around the concession areas. Despite the fact that palm oil industry is still dominating the land acquisition for plantation purposes in Indonesia, the regulations do not only limit themselves to palm oil plantation but also apply to all land concessions.

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[9] Badan Pusat Statistik.2020. Provinsi Riau dalam Angka 2019. p.67

[10] Analysis of Yayasan Madani Berkelanjutan.2020. Processed from Plantation Statistics data: Indonesian Palm Oil Commodity 2010-2018 from the Ministry of Agriculture

[11] Ibid. Badan Pusat Statistik.2020. Provinsi Riau dalam Angka 2019. p.251

[12] Loc Cit. Badan Pusat Statistik.2020. Provinsi Riau dalam Angka 2019. p.255-280

[13] Aziz.Abdul dkk. Gatra .2019. Dua Tahun 230 Hektar Kebun Sawit di Siak Berubah Jadi Sawah. Accessed from https://www.gatra.com/detail/news/454067/ekonomi/dua-tahun-230-hektar-kebun-sawit-di-siak-berubah-jadi-sawah on 20/04/20

[14] Farmer Exchange Value (NTP) is a proxy indicator to determine the farmers' welfare. NTP is comparison between the farmers' receivables index (It) and farmers' payable index (Ib). Badan Pusat Statistik. 2020. Accessed from https://www.bps.go.id/subject/22/nilai-tukar-petani.html on 22/04/20

[15] NTP > 100, means that the farmers had surplus (prosper). Increase in production price is higher than the increase in consumption price. Farmers' earnings are higher than farmers' spending.

[16] NTP< 100, means that the farmers had deficit (not prosper). Increase in production price is relatively smaller than the increase in the price of consumption goods. Farmers' earnings are declining, smaller than their spending.

[17] Palm oil plantation permits referred to in this analysis is Land Use Rights (HGU, a right to manage the land that have been under state's control, in specific time period, for agricultural, fishery or husbandry companies (Article 28 paragraph 1 Basic Agrarian Law (UUPA) No. 5 of 1960).

[18] This can be seen in Law No. 25 on Investment Chapter IX Article 15 Letter (b); Law No. 30 Year 2009 on the Protection and Management of the Environment, Article 68; Regulation of Minister of Spatial Planning No. 7 Year 2017 on Regulation and Procedure of Land Use Right Designation Part Two Article 40 Letter (i); Law No. 40 on Limited Liability Company Chapter V Article 74 and Government Regulation No. 47 on Social and Environmental Responsibility of Limited Liability Company, Article 2,3,4,5,6,7,8 and 9.

Riau is a province with the largest planted palm oil in Indonesia, in 2019 there were 3.4 million[19] hectares of planted palm oil in this province. From 2011-2017, palm oil planted area in Riau has expanded with an expansion rate of 6.9% or equal to 113.6 thousand hectares /year. There are six districts with the largest planted palm oil area in Riau, namely, Kampar (430 thousand hectares); Rokan Hulu (410 thousand hectares); Siak (347 thousand hectares); Pelalawan (325 thousand hectares); Rokan Hilir (282 thousand hectares); and Indragiri Hilir (227 thousand hectares). Based on such facts, the common assumption that has been developed is that palm oil plantations make great contribution to the development at the village level. For example, the Indonesian Palm Oil Association (GAPKI) argues that the development of palm oil plantations in a region can boost the economic development in rural and urban area at the same time.[20] This argument has been disputed by civil society groups. One of them is the Institute for Ecosoc Rights, based on their research, they conclude that development of palm oil plantations has a devastating effect for the village community.[21] A similar argument also comes from the Governor of Riau, Syamsuar. Syamsuar said that despite Riau's reputation as the biggest palm oil producer in Indonesia, many palm oil companies keep evading taxes while the tax revenue is one of the sources for regional development.[22]

Various point of views regarding palm oil plantation's contribution to village development are an indication that the actors do not base their arguments on the same set of data, also resulting in various insight. This condition is a challenge for policy makers in formulating a win-win solution. It is important to make sure that the stakeholders are on the same page before stepping further into the process of governance improvement. The fair way to understand this issue is by using the official data that has been recognized by the state. The data could be obtained from the Central Bureau of Statistics (BPS), the Ministry of Agriculture and the Ministry of Village, Development of Underdeveloped Regions and Transmigration. The first step is by identifying the number of palm oil plantation permit holders, both legal (with permit) and illegal (without permit) in Riau province that have been collected by various civil society organizations from the Ministry of Spatial Planning/ATR/BPN. The data will be compared to the public document of Village Development Index (IDM) that contains social, economic and environmental index of a particular village.[23] IDM divides the village development status into five classifications, namely: Independent, Developed, Developing, Underdeveloped and Very Underdeveloped Village.[24] This insight will only focus on seven districts with the largest area of planted palm oil in Riau as mentioned in the previous paragraph.

The analysis result shows that there are 288 legal palm oil plantations across Riau distributed in 573 villages.[25] Besides, there are also 38 illegal palm oil plantations distributed in 95 villages.[26] More detailed explanation can be seen in the following Chart.

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19 Ministry of Agriculture.2019. the Decision of the Minister of Agriculture of the Republic of Indonesia No 833/KPTS/SR.02/M/12/2019 on the Determination of Indonesian Palm Oil Cover of 2019.

20 GAPKI. 2017. Kebun Sawit Bangun Harmoni Ekonomi Kota Desa. Accessed from https://gapki.id/news/1562/kebun-sawit-bangun-harmoni-ekonomi-kota-desa on 16/03/2020

21 Tomte. Aksel. 2019. Ini Mengapa Perkebunan Sawit Bisa Membuat Masyarakat Desa Miskin. Accessed from https://theconversation.com/ini-mengapa-perkebunan--sawit-bisa-membuat-masyarakat-desa-miskin-123382 on 16/03/2020

22 2019. Gubernur Riau: Sejuta Hektare Sawit Kemplang Pajak. https://www.borneonews.co.id/berita/147401-gubernur-riau-sejuta-hektare-sawit-kemplang-pajak on 25/03/20

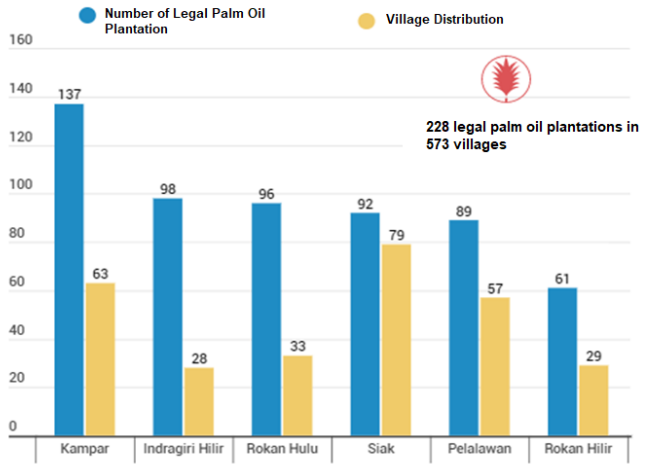
23 Indicators used in IDM including Social Security Index (social, health, education, and settlement capitals), Economic Index (variety of community products, availability of trade service center, access to distribution, access to financial institutions and area openness), and Ecological Index (environment quality and potential of disaster-prone and disaster-response potentials)

24 The Regulation of Minister of Village No. 2 of 2016 on Village Development Index has mentioned the definition of village development classification. **Independent Village** defined as developed village with the ability to conduct village development to improve the life quality and the welfare of village community coupled with economic resilience and sustainable economic resilience; **Developed Village** defined as a village that has the potential of social, economic and ecological resources, as well as the ability to manage them for the improvement of the welfare of the village community, the quality of human life, and to eradicate poverty; **Developing Village** defined as A village that has the potential to transform into a developed village. It has the potential of social, economic, and ecological resources but has not managed them optimally to increase the welfare of the village community, the quality of human life and to eradicate poverty; **Underdeveloped Village** defined as a village that has the potential of social, economic, and ecological resources but has not managed them to increase the welfare of the village community, the quality of human life and is still experiencing poverty in various forms; and **Very Underdeveloped Village** defined as A village that is experiencing vulnerability due to the problems of natural disaster, economic shocks, and social conflicts. It is not capable of managing its potential of social, economic, and ecological resources and still experiencing poverty in various forms.

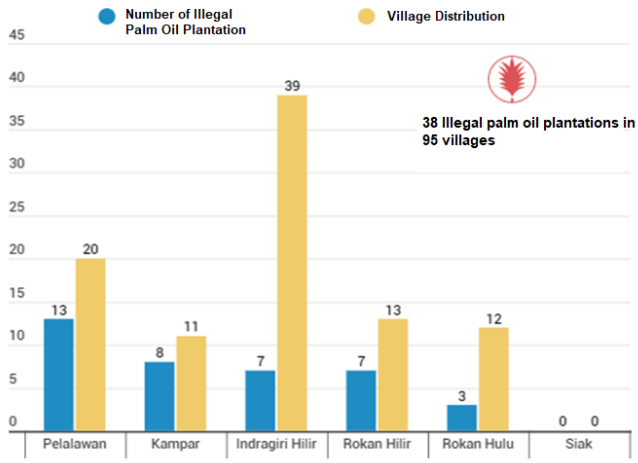
25 Kompilasi Data Pemilik Hak Usaha Perkebunan Sawit (Kementerian ATR/BPN; Global Forest Watch, RSPO. Kaliptra Andalas 2018)

26 Pansus DPRD Provinsi Riau. Sawit Ilegal.2015

Number of Legal and Illegal Palm Oil Plantations Distribution by Village in Riau Province



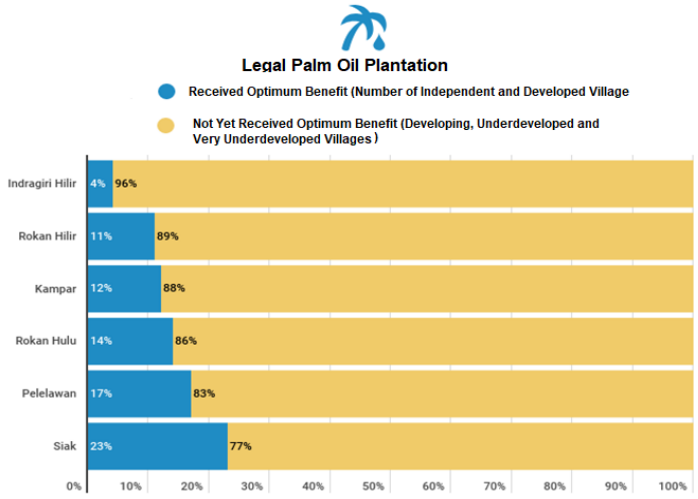
Source: Ministry of Spatial Planning/National Land Agency, Global Forest Watch, RSPO, Kaliptra Andalas (2018 processed)

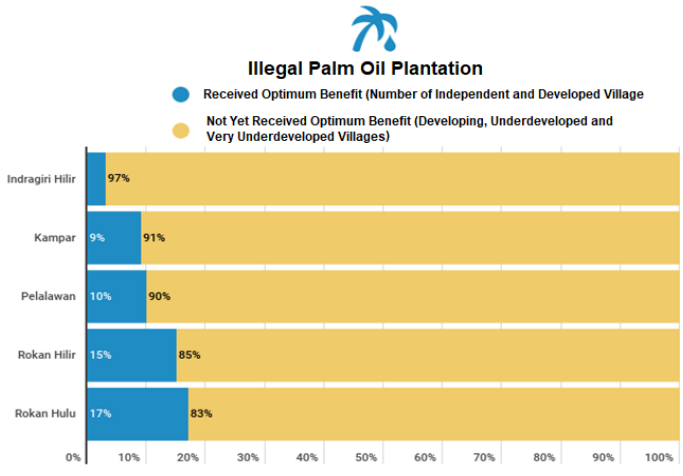


Source: Special Committee for Illegal Palm Oil of Regional House of Representatives of Riau (2015 processed)

According to the data on plantation distribution, the number of villages that are impacted (both in positive and negative ways) by the existence of palm oil plantations (both legal and illegal) is quite high. There are 63 villages in Kampar; 23 villages in Indragiri Hilir; 33 villages in Rokan Hulu; 79 villages in Siak; 57 villages in Pelalawan; and 29 villages in Rokan Hilir adjacent to legal palm oil plantations. Moreover, with regards to villages adjacent to illegal palm oil plantations, there are 39 villages in Indragiri Hilir; 20 villages in Pelalawan; 13 villages in Rokan Hilir and Pelalawan; 12 villages in Rokan Hulu; and 11 villages in Kampar. This will be used as a basis to analyze how the data describes the development in those villages from the social, economic and environmental aspects. In this analysis, the contribution of palm oil plantation to the village development will be divided into two categories, namely, village with optimum benefits from palm oil plantation and village without optimum benefits from palm oil plantation. A village is categorized as "receiving optimum benefit" when the IDM status shows "Advanced" or "Independent" result. Meanwhile, a village is categorized as "not receiving optimum benefit" when the IDM status shows "Developing", "Underdeveloped", or "Very Underdeveloped" result. Based on the definition from the Ministry of Village, Development of Underdeveloped Regions and Transmigration, a village with IDM status of "Developing" is categorized as "not receiving optimum benefit".[27] More detailed description on village development can be seen in the following Chart.

Development Status for Villages Around the Legal and Illegal Palm Oil Plantations in Riau Province





Source: Village Development Index 2019

[27] Developing Village is deemed as not receiving optimum benefit from palm oil plantation. because, the definition of developing village according to the Ministry of Village is "**A village that has the potential to transform into a developed village**". It has the potential of social, economic, and ecological resources but has not managed them optimally to increase the welfare of the village community, the quality of human life and to eradicate poverty;". It means, their potentials have not been realized and utilized.

In total, from the development status of 576 villages around legal palm oil plantations in Riau, only 13% of them have been receiving optimum benefit from the existence of palm oil plantations, consisting of 9 independent villages and 67 developed villages while 87% of the villages have not been receiving optimum benefit from the existence of palm oil plantations, consisting of 362 developing villages, 126 underdeveloped villages and 9 very underdeveloped villages. For districts, Indragiri Hilir has the lowest IDM value where from the total of 98 villages located around palm oil plantations, only 4% are categorized as villages that have been receiving optimum benefit. The problem is, none of those villages are categorized as independent and there are only 9 developed villages despite their locations that are adjacent to palm oil plantation areas. This is contrary to the fact that is being used as a basis for issuing plantation permits in those villages. Most of the permits were issued during the 1994-1999 period. Meanwhile, compared to the result in the other 5 districts, Siak has a relatively high IDM value. From the total of 92 villages around palm oil plantation area, 23% (3 independent villages and 18 developed villages) are categorized as villages that have been receiving optimum benefits. However, there are still 77% of villages that have not received optimum benefits from the existence of palm oil plantations in this district. Referring to the parameters for IDM assessment, 87% of villages in Riau that have not received optimum benefits are caused by the low economic and environmental index values, especially on the parameter of access to distribution, access to financing institution, and village capacity in response to disasters.

Furthermore, in general, the development status in 95 villages around illegal palm oil plantations is worse than the development status in villages around legal palm oil plantations in Riau. Only 8% of the developed villages that that have been receiving optimum benefits from the existence of palm oil plantations , while for the independent villages, they have not been receiving any benefits. Meanwhile, 92% of villages are categorized as villages that have not been receiving optimum benefits from the existence of palm oil plantations with 52 developing villages, 32 underdeveloped villages and 3 very underdeveloped villages. Again, Indragriri Hilir has the lowest IDM value compared to the other 4 districts that have been identified for having illegal palm oil plantations. From 39 villages around illegal palm oil plantations, 38 villages (98%) of them have not been receiving optimum benefits from palm oil plantations and only 1 village is categorized as a developed village. Moreover, as one of the six districts that becomes a locus in this analysis, Siak district is not identified as having illegal palm oil.

From the above explanations, we can conclude that the contribution of palm oil plantation, both legal and illegal, to the village development in Riau is still far from expectation. The result from this analysis can provide future illustration where a strong commitment from the government and palm oil companies is required to establish village independence. Indications resulting from this analysis can be used by the government to encourage the improvement of governance and environmental and social responsibilities (TJSL) of palm oil companies in Riau. Integrating the TJSL program into regional planning, reward and punishment system, and active participation from village communities are required to boost the contribution of business entities to the focused village development in the future.

EXAMINING THE WELFARE LEVEL OF PALM OIL SMALLHOLDERS

Currently, smallholders are important actors in the development of palm oil industry in Indonesia. In 2018, 2.67 million farmer households depend their livelihood on 5.8 million hectares of palm oil plantations or equal to 41% of total area of Indonesia.[28] Vast amount of plantation is inseparable from the high annual expansion rate of planted area. From 2014 to 2018, the average expansion rate of smallholder planted area reached 7.32% or equal to 347 thousand hectares annually. In specific, there are five (5) provinces with the largest community palm oil planted area in Indonesia. Riau ranks 1st with community palm oil planted area reaching 1.53 million hectares, followed by North Sumatera (616 thousand hectares); Jambi (586 thousand hectares); South Sumatera (574 thousand hectares) and West Kalimantan (422 thousand hectares).

According to the above mentioned facts, the popular perception is that the expansion of palm oil plantation always correlates positively with the welfare of farmers. For example, the Indonesian Palm Oil Association (GAPKI) stated that the expansion of community palm oil has increased the welfare of farmers to the middle level (prosperous)[29]. The argument has been countered by civil society groups, arguing that improving the production and farmers' welfare should focus on the improvement of productivity instead of land expansion.[30] From the farmers' point of view, according to RCCC UI, 69% of smallholders in Riau and Jambi are still choosing land expansion as the primary option to increase their production and welfare.[31] None of those arguments can be said as

[28] Statistik Perkebunan Indonesia 2018: Kelapa Sawit. 2018. Direktorat Jenderal Perkebunan Kementerian Pertanian.

[29] GAPKI. 2018. Peran Strategis Sawit Rakyat. Accessed from https://gapki.id/news/3875/peran-strategis-sawit-rakyat-indonesia on 22/04/2020

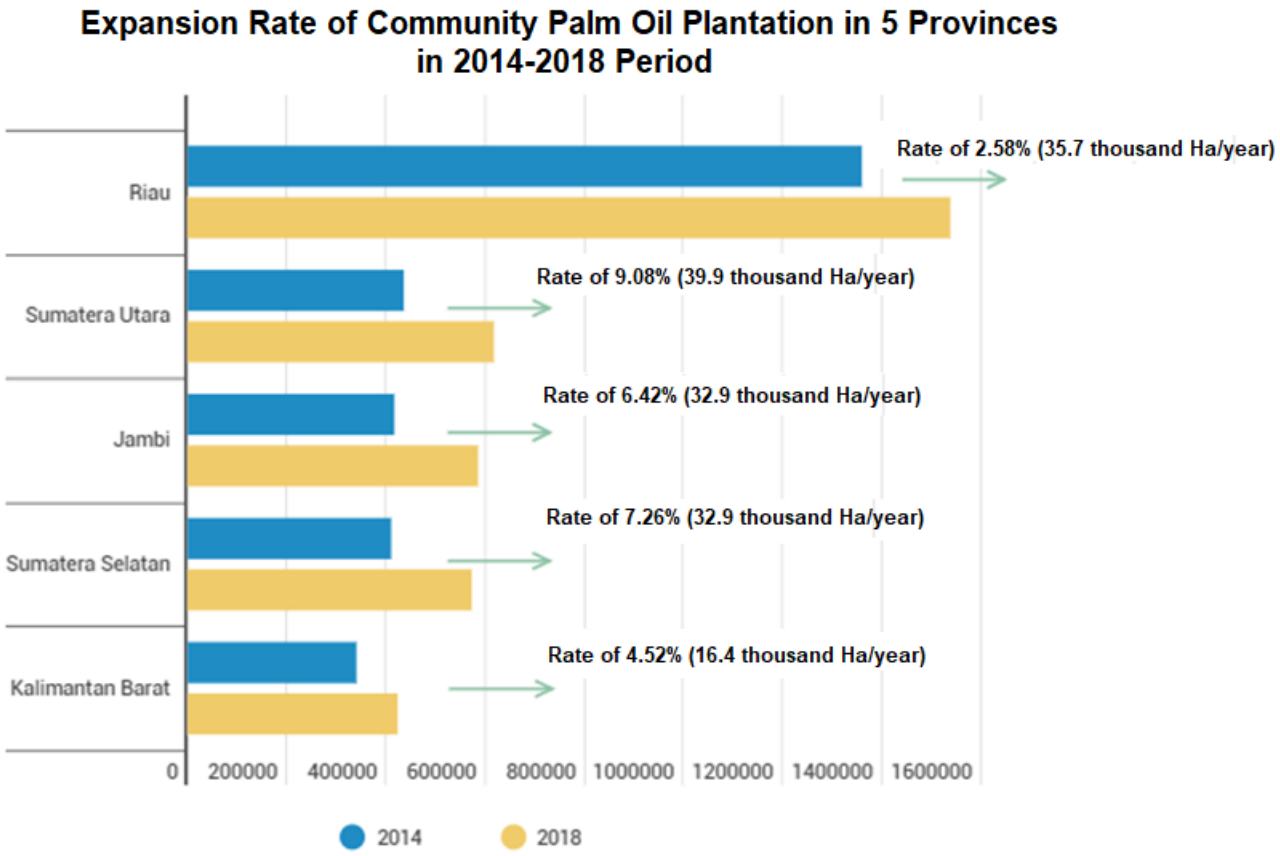
[30] Siaran Pers. Madani, Kaoem Telapak, Kemitraan, ELSAM, KEHATI, SPKS, Sawit Watch, ICEL, WRI, Greenpeace, FWI, dan Tuk Indonesia. 2019. Accessed from https://mediaindonesia.com/read/detail/147182-kebijakan-sawit-bukan-penambahan-lahan on 22/04/2020

[31] Pahlevy. Asianti. Mongabay.2018. Berbenah Petani Swadaya Desa Mandiri dan Maju di Kalbar Tak Ada Perusahaan Sawit. Accessed from https://www.mongabay.co.id/2019/10/03/berbenah-petani-swadaya-desa-mandiri-dan-maju-di-kalbar-tak-ada-perusahaan-sawit/ on 22/04/2020

absolutely true or false, both have specific strong points that depend on the highlighted aspect and method they are using. However, a comprehensive understanding using official data from the government is required to reveal the truth behind those assumptions.

The initial step is identifying the amount of community plantation expansion rate by referring to the data from the Ministry of Agriculture. After that, the data should be compared to the index of Farmer Exchange Value (NTP)[32] of community plantations from BPS. NTP is the baseline used by BPS to identify the welfare of farmers in a particular region. The NTP indicators include the exchange value of commodities sold by the farmers compared to the cost borne by the farmers during production process. There are three classifications of welfare level in NTP, namely: Prosperous if the NTP value is >100; stagnant if the NTP value = 100; and less prosperous if the NTP value is < 100[33]. This analysis will only focus on 5 provinces with the largest area of community planted palm oil.

The analysis result in the 5 provinces with the largest community palm oil planted area shows that, during the 2014-2018 period, North Sumatera was the province with the highest expansion rate of community palm oil plantation (39.9 thousand hectares/year), followed by Riau (35.7 thousand hectares/year), South Sumatera (32.9 thousand hectares/year), Jambi (30 thousand hectares/year) and West Kalimantan (16.4 thousand hectares/year). More detailed information can be seen in the following Chart.



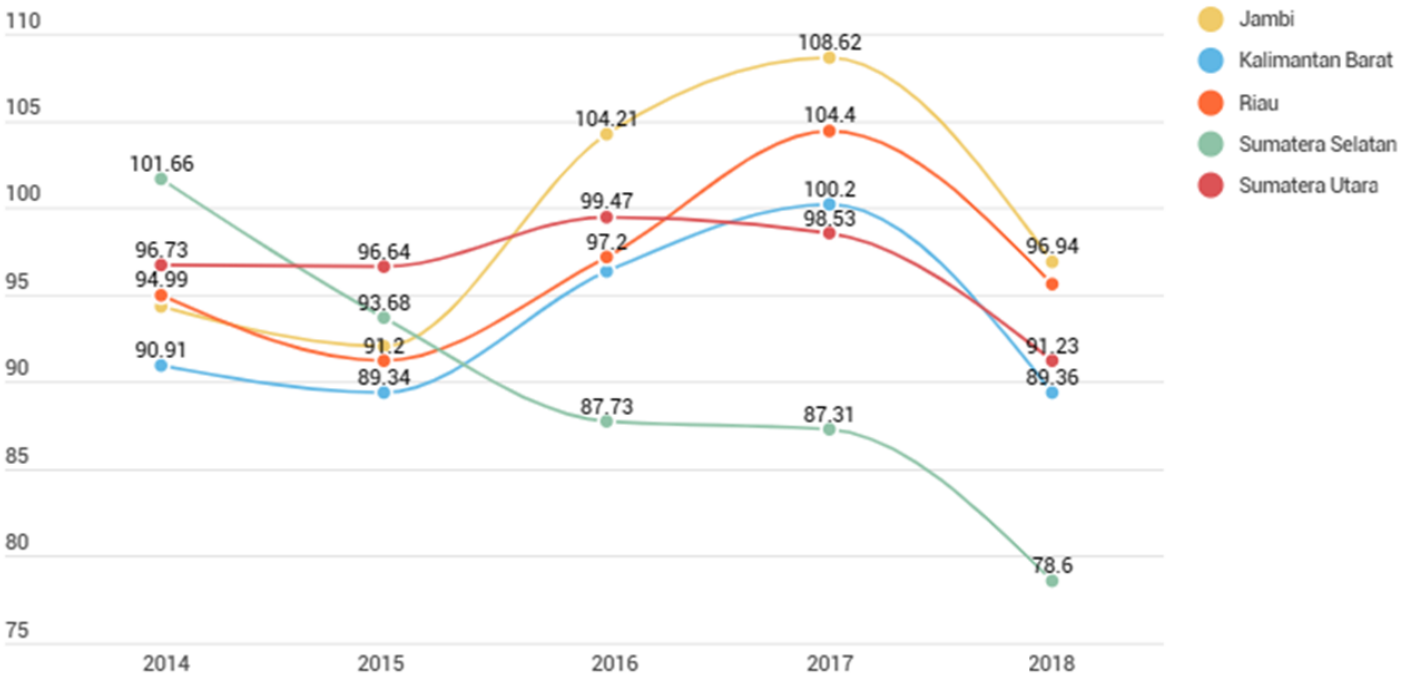
Source: Tree Crop Estate Statistic of Indonesia, Ministry of Agriculture 2014 – 2018

However, the expansion of palm oil plantation areas is not necessarily in line with the welfare level of farmers. During the 2014-2018 period, the welfare level of farmers shows a fluctuating trend. Further information on the welfare level of palm oil farmers in five provinces using the farmers exchange value/NTP of community plantation can be seen in the following Chart.

[32] Farmer Exchange Value is ratio between price index that received by the farmer and price index that was spent by the farmer, stated in percentage. Farmer Exchange Value is one of the indicators in determining welfare level of farmers. BPS.2020. accessed from https://www.bps.go.id/subject/22/nilai-tukar-petani.html on 22/04/2020

[33] Ibid

Farmer Exchange Index (NTP of Community Plantation in 5 Provinces, 2014-2018 Period



Source: The Central Bureau of Statistic, 2014 – 2019

The above chart confirms that the welfare level of farmers in the 5 provinces is still below expectation. As the province with the highest expansion rate of community palm oil planted area, the NTP value of North Sumatera is less than 100. A similar situation can be seen in West Kalimantan during the same period. This fact is an indication that the welfare level in those 2 provinces are continuously low. In Riau, as a province with the largest community palm oil planted area in Indonesia and the highest expansion rate of community planted area that reached 35.7 thousand hectares annually, 2017 was the only year where its NTP value exceeded the high welfare line. For the farmers in South Sumatera, they have only reached the high welfare level in 2014 although the value kept declining afterwards. Meanwhile, Jambi is the only province with a relatively high level of farmer welfare. High level of welfare was achieved in 2016 and 2017, while fluctuations were found in 2014, 2015 and 2018.

Referring to the indicators used by the BPS through the NTP index, the low level of farmer welfare is caused by the cost they have to bear during production process that is bigger than the received income from the selling price of their product. It means that the expansion of planted area is not the absolute requirement in improving palm oil farmer's welfare. There are other factors and challenges that should be overcome, such as productivity, financial, legality and sustainability issues.[34] From the productivity aspect, compared to the private plantations, the community palm oil plantations are still struggling with low level of productivity. During the 2013-2018 period, the average productivity rate of community palm oil was only 3.6 ton/hectare, way behind the private plantation that reached 4 ton/hectare. Regarding microfinancing aspect, the inability of farmers to obtain information as well as low negotiation skill has been the main cause of low FFB price. Their FFB price is 40% cheaper than the standard price that was stipulated by the provincial government.[35] Meanwhile, legality challenge for smallholders is originated from the documenting process of their land. Most of the community plantation land has uncertain legality basis. Thus, the legality challenge is limiting farmers' access to financing opportunities and certified seedlings.[36] Legality aspect is another problem that should be resolved in order to push smallholders to meet the requirements of Indonesian Sustainable Palm Oil (ISPO). This effort will reduce the risk where the smallholders will eventually be abandoned by the consumers in the formal market since the market demands the supplier to meet the public standard such as ISPO and other sustainability standards such as RSPO and zero-deforestation commitment.[37]

[34] Glenday S dan Paoli G. 2015. Jakarta. Daemeter Consulting: Overview of Indonesian Oil Palm Smallholder Farmers.

[35] Ibid

[36] Idsert Jelsma, G.C. Schoneveld, Annelies Zoomers, A.C.M. van Westen, Unpacking Indonesia's independent oil palm smallholders: An actor disaggregated approach to identifying environmental and social performance challenges, Land Use Policy, Volume 69:2017, p. 281-29

[37] Ibid

CONCLUSION

Compared to the planted area of other plantation and agricultural commodities, the vast amount of palm oil planted area in Riau does not necessarily improve the community welfare and regional food security level in that province. The result of this analysis shows that from 7 districts with a significant amount of planted area, community welfare level in 6 districts are relatively low. Moreover, food insecurity is also found in 4 districts. From the farmer side, welfare level of farmers in Riau is still below expectation. Despite its reputation as a province with the largest community palm oil planted area and the highest expansion rate, during the 2014-2018 period, the decent welfare of farmers in Riau was only realized once in 2017. A similar situation can be found in the aspect of village development such as economic, social and environmental aspects. Both legal and illegal palm oil plantations are still unable to provide optimum contribution to village development. Almost 90% of villages in 6 districts with the largest palm oil plantation in Riau have not been receiving optimum benefits from the existence of palm oil plantation in their respective area. Diversification of commodities can be used as an option to improve life quality of the community as well as their food security level. Moreover, strong commitment to improve governance from the stakeholders is required to overcome the abovementioned problems.

As one of the efforts to achieve diversification of commodity, the regional government can improve its plantation strategic planning to be more focused on the variety of commodities and the balance of production among the plantation and agricultural commodities, depending on the types of commodities that have been planted by the local community. A variety of primary plantation and agricultural commodities from each district will strengthen the food security level and boost the inter-district economic transactions across Riau. Balancing the planted area for crop foods such as paddy and secondary crops can be used as an alternative for diversification to improve the welfare and establish food security. In fact, during the 2014-2018 period, farmers exchange value/farmers welfare index for these commodities are relatively stable, compared to the value of palm oil commodity.

The issuance of palm oil moratorium policy is a momentum for the regional government to improve the welfare level of its farmers. Plantation expansion is not the only solution, there are many issues that have to be addressed. The real efforts that must be made include minimizing the price gap of FFB between farmers and consumers level and minimizing the price inflation for farmer goods. Those are some alternatives that should be taken into consideration. Moreover, the issues on productivity, financial, legality, and sustainability that are faced by the smallholders require serious concern from the government to trigger competitiveness and minimize the risk of farmer removal from the formal market. Law enforcement regarding illegal palm oil plantations should also be made a priority by the current regional government. Because, aside from the tax evasion, from the total number of illegal palm oil plantation in Riau, 92% of them have not been contributing to the development of villages around its plantation area.

Establishing independent village as an effort to achieve the development goals is an exceptional challenge for the regional government. It is impossible for the regional government to work alone, involvement of private sectors as the holder of palm oil plantation permits that are operating in the village area at the district level is urgently required. In the future, there should be a measurable, strict, and focused mechanism that regulates the TJSL commitment from palm oil plantation companies to the village around the plantation area. The regional government can also encourage and facilitate the involvement of village communities in determining and monitoring the TJSL program from Plantation Company according to the communities' needs and the problems they are facing.