



Questioning the Legitimation of Indonesian Sustainable Palm Oil Certification in Independent Smallholders Inside Company Concession Areas



Bondan Widyatmoko*

[*Abstract*]

Only a few researchers highlighted the implementation of Indonesian Sustainable Palm Oil (ISPO) certification. These neglected the importance of analyzing the different trajectories of the relations of production in Indonesian palm oil development. As a result, there is a prevailing doubtful attitude on ISPO legitimation. This paper aims to identify how independent smallholder pilot projects give meaning to ISPO legitimation and implementation. It explores production relations in a smallholder community, focusing on land ownership, the formation of a cooperative, and response capability in cases of failure. This paper reveals that the project brought greater understanding to the community with regards to sustainability, as well as strengthened cooperation between the company and the cooperative. This, despite the community's confronting the same problems of land legality as other independent farmers, as the community is located inside the company concession (*Hak Guna Usaha*, HGU).

Keywords: Indonesian Sustainable Palm Oil (ISPO), Certification, Land Legality, Cooperative

* Researcher at the Research Centre for Regional Resources, Indonesia Institute of Sciences (P2SDR-LIPI), widyatmoko.bondan@gmail.com

I . Introduction

The higher the tree, the stronger the wind will be. This saying best describes Indonesian palm oil development and the creation and improvement of Indonesian sustainable palm oil (ISPO) certification. When Indonesian palm oil production exceeded Malaysian production in 2009, many issues emerged such as environmental degradation, social conflict, and animal welfare, which caught world attention. In 2010, a viral commercial by Green Peace criticized palm oil production by showing an orangutan's fingers inside a Kit-Kat wrapper. Four years later, Mel Gibson starred in *The Year of Living Dangerously*, a movie depicting environmental degradation and forest fires in Kalimantan and Riau provinces—the Indonesian centers of palm oil production.

To some extent, these events raised sustainability concerns among palm oil users, especially in European Union (EU) countries. A series of EU policies were imposed to mitigate the effects of palm oil production, especially in producing countries such as Indonesia. Unfortunately, it soon became a political issue for the EU and Indonesia as economic contestation surfaced. For example, in 2009, the EU created a certification scheme called the renewable energy directive (RED), which ensures the sustainability of palm oil as biomass for renewable energy production in the EU region. Under RED, 19 certifications were required to comply with the EU sustainability criteria. In 2013, the EU accused Indonesia of price regulation in the form of export taxes for raw materials and imposed anti-dumping duties on Indonesian palm oil. In April 2017, the European Parliament agreed to rule out unsustainable palm oil production in the European market by creating a single certification scheme and maintaining different customs duties until such certification provided adequate results (European Parliament, 2017).

Facing these international pressures, Indonesia endorsed ISPO certification as a mechanism to ensure the sustainability of Indonesian palm oil production. ISPO certification, which was effectively enacted since 2011, aims to increase palm oil production competitiveness and tackle environmental issues created by palm oil production. As a mandatory certification system, ISPO requires

companies to fulfil sustainability principles. ISPO certification also targets smallholders and is set to be fully completed in 2020. However, there is little research on ISPO certification implementation in relation with smallholders (*plasma*), especially in independent smallholders (*swadaya*). Most current research on ISPO addressed the certification's legitimate existence as a system for governance of environmental and social sustainability. Most of them also tried to compare the normative discrepancies between the ISPO certification principles and other existing certifications by analyzing weaknesses and strengths (EFSA 2015; Winarni, Sutriso, and Jiwan 2014; Harsono, Chozin, and Fauzi 2012). Others highlighted the certification as state instrument, as palm oil producers struggle against the domination of private certifications representing consumer interests (Hospes 2014). Further research contrasted certification principles with what really happens in the field (Nanggara, et al. 2017). Varkkey (2016: 186) and mentioned that the Indonesian Sustainable Commission, an agency responsible for the creation and implementation of ISPO certification, is influential in recommending and changing regulations based on the interests of the industry.

Further, several researches discussed the implementation of ISPO and smallholders, one of which is by Potter (2016: 166), who revealed the difficulties Indonesian independent smallholders face in getting ISPO certification because of on-farm problems, such as the supply of certified seed and fertilizer and low yields. In my observation during a field research last 2015 to 2016 in several smallholders appointed as ISPO pilot projects, I found that land legality and the formation of cooperatives are the greater problems. Other researches showed that ISPO certification may encourage harmonization of governance in rural areas and clarification of concession processes that put smallholders into a disadvantageous position (Anderson et al. 2015: 16). In a similar tone, Enden (2013) considered that ISPO certification may yield positive economic implications for smallholders, and suggested that a stakeholder's long-term commitment towards sustainability and well-established cooperatives are key in its successful implementation.

However, those researches only provided partial depiction on the question of the certification's legitimation. Much only observed

the political processes of certification and the creation of sustainable institutions. The perspectives are problematic when these processes and institutions are considered alongside environmental degradation and social conflicts that affect smallholders. These took for granted how smallholders (*plasma*) are marginalized, aside from valorizing them over independent smallholders. These seem to avoid the fact that smallholders, both *plasma* and *swadaya*, have higher recorded average growth rates for cultivated palm oil as compared to private and state companies from 1980 to 2016. It is crucial to show the “evolution” of smallholders, using as platform their relations to production. Attending to this development and observing the connections, as well as the disconnections of the community within the implementation of ISPO certification, provides a glimpse on the effects of regulation as a legitimate institution mitigating the effects of palm oil production.

To fill in the gap in researches on implementation of ISPO certification in independent smallholders, this paper observes and analyzes its implications to the socio-economic development of pilot project smallholders in Rimba Polon, a community of independent smallholders in Riau Province, Indonesia. This study focuses on the historical trajectory of modes of production, especially land ownership in the community, and observes the changes brought about by the ISPO certification implementation to smallholder institutionalization.

II . Legitimacy of Commodity Certification

Nowadays, certification¹ in commodity trading is gaining more importance for both consumers and producers. It provides norms and rules as guide for producers to pay attention to social and environmental factors in the course of production. Hence, for

¹ Certification in this paper refers to a third-party mechanism for governance, which aims to establish social and environmental sustainability by creating standard and independent monitoring. Market acceptance indicates participation in certification. Within this definition, certification also covers fair trade initiatives and eco-labeling. However, in terms of initiatives, certification is not limited to the private sector but may also be initiated by governments.

producers, certification has become a public document of product reliability. It symbolizes a producer's reputation and commitment to social and environmental sustainability, which has become a decisive factor for consumer choices of certain products. Nielsen's Global Corporate Sustainability survey (2015) revealed that 60% of 30,000 respondents in 60 countries, especially young consumers, were eager to spend their income on sustainable products. This percentage increased by 10%, compared to a similar survey conducted in 2013 (Nielsen 2015). This growing tendency is understandable since consumers have become better informed of issues that go with certain commodity production processes, such as health, child labor, pollution, and conflict. Therefore, certification provides information and certainty as regards product origins and production processes. It helps consumers recognize "rotten tomatoes" in the basket.

Many commodities, such as that from forestry, agriculture, and marine products, are administered by certification. In the forestry sector, the Forest Stewardship Council (FSC) is the most known sustainable certification. The FSC was established in 1993 by a group of business, environment, and community leaders. By 2017, the FSC certified a total of 193,546,640 hectares of forest worldwide. There are more than 33,000 FSC participating members. For marine products, the Marine Stewardship Council (MSC) is the precedent certification. The MSC was the fruit of the collaboration between a Dutch corporation, Unilever, and the World Wild Fund (WWF) in 1997. The MSC's website claims that they are responsible for 10% of the global wild fisheries catch and 24,000 consumer products attach MSC's labels to their packages. For agricultural products like palm oil, companies subscribe to the Roundtable on Sustainable Palm Oil (RSPO) for private certification. The RSPO, established in 2004, is responsible for certifying 2.48 million hectares of plantations and 11.83 million tons of certified sustainable palm oil.

In the past decades, commodity certification has been operationalized not only to ensure quality control but to also become a social and environmental institution (Cashore, Auld, and, Newsom 2004; Bartley and Smith 2010; Ebeling and Yasue 2008; Vandergeest 2007). Severe environmental degradation and the prevalence of social injustices have made the public, and especially consumers,

question the government's effective regulatory mechanisms to mitigate these situations. Government institutions are perceived to be slow in responding to problems, processing information, and legislating solutions, due to limited budget and lack of human resources. Commodity certification is generally implemented by private entities to introduce systems that help avoid asymmetric information problems, provide immediate measures, and encourage adjustments. Institutionally speaking, certification sets operational compliance standards in environmental protection or labor rights, and provides a forum for multi-stakeholders to participate in decision-making, monitoring, and reporting. Although certification does not have coercive power, as governmental regulation does, it pushes for social change by urging responsible corporate and government commodity production and monitoring processes. Pressure may come in the form of protests, "blame and shame" campaigns, and commodity boycotts.

Gaining institutional power is not the only reason for endorsing commodity certification; it is also believed to bring other benefits. The most prominent of which is attracting a premium price for the commodity, expected to increase revenues for the certification participants, especially farmers. This may also increase access to credit and larger household investments in assets and education (Elbers et al. 2015; Bacon 2004). The formation of community organizations such as cooperatives becomes an opportunity to communicate and transfer of knowledge regarding consumer ethical values. Certification also helps shape a more specialized cooperative business model to reach international markets. For one, certification cooperatives focus on commodity-related services such as marketing, production, and supply and market extension (Beuchelt and Zeller 2012). The cooperative also provides a forum among farmers where they can discuss production problems as well as the proportional distribution of wealth (Lyon 2011). The community is empowered by the organization to negotiate socially, politically, and economically beyond their community boundaries (Perez-Ramirez, Ponce-Diaz, and Lluch-Cota 2012).

Research on palm oil smallholders in Riau Province, Indonesia who had received RSPO certification explained that economic

considerations motivated them to participate in certification. It allowed them better market options and better prices, though it did not liberate them from livelihood vulnerability. There were no available information on the implications of certification to smallholders' asset accumulation or investment. However, a report mentioned that certification improved smallholder's palm oil production volumes, though slow demand for certified palm oil has made them vulnerable. Smallholder ethnic homogeneity was also mentioned as key in certification processes for smallholder cooperation (Hidayat, Glasbergen, and Offermans 2015). Similar researches on the community revealed that increased production of palm oil appeared to be the benefit of certification (Cameron 2017).

Smallholders' motivations and benefits and farmer homogeneity have been found to be shaping the certification process. This is where certification becomes problematic as the exchange between premium price and expected sustainability products might result in setting aside social values (Frey and Obelhozer-gee 1997). Community social values are informed by financial motives and certification incentives. Guthman (2004) notes that this rent-seeking economic activity will shift away the initial aims of certification. Furthermore, in the palm oil sector, Cramb and McCarthy (2016) highlighted incorporation problems for communities after certification, where commodity production cannot keep up with living and production expenses. Moreover, Mutersbaugh (2005) notes that certification compliance costs may be higher than the premium prices they attract through certification; these higher prices are said to only benefit other actors, such as retailers.

The "stick and carrot" approach in the implementation of private commodity certification should be recognized by ISPO. It is important for private certification to strictly uphold this approach for gaining market trust and at the same time incorporate the community. It is a way to legitimize the operation of private certification. However, commodity certification endorsed by government works differently. The certification relates to the community through government coercive power rather than price incentives. Therefore, certification may be legitimized if the notion of ISPO's coercive power is transformed into acceptance and obedience by the society

in implementing the policy. However, the notion of change should not be limited to reflect policy effectiveness where government presence is dominant in the society. It should also recognize that change is also an arena where conflict, co-optation, corruption, and opposition between government and society occur. These do not distract but actually create more community articulation as regards government institutional power.

In this case, the observation of ISPO implementation needs to incorporate community historical trajectories of modes of production in such as aspects as access to land and financial capital. Both legality and access created different modes of production and potential accumulation. In the development of Indonesian palm oil, government presence has been influential to determine these aspects delivered to smallholder community. The Nucleus Estate Program (NES) program, which integrated people settlement or transmigration in 1980s, for example, created two types of smallholders with varying possessions and access to production. The first type is the *plasma* smallholder, which generally refers to populations incorporated in these programs and survived adversities. *Plasma* smallholders tend to have nationally-recognized land ownership for palm oil and are eligible for financial access. This is because the company involved in NES gave 20% land concession for palm oil development, which went to participants and benefitted local communities. This program generally formed *inti-plasma* (nucleus estate-plasma) communities where participants and local groups were directly incorporated with the company's mode of production.

After the economic crises that hit Indonesia in mid 1990s, the development of palm oil has been extensive. The government refrained from involving itself with palm oil, but instead administered the giving of concessions through investment policies. In these, obligations to develop local community plantations were mostly ignored by many companies. To some extent, companies were not perceptive with *adat* community living prior to the given concession, which created social conflict and unequal relationship by way of *de jure* versus *de facto* land ownership between company and community. The community was left without choice but to tend to

their livelihood without enough access and information about factor production. This community generally refers to the second type of smallholder, which is the independent smallholder, interested in developing palm oil with their resources. This is a more complex type, due to their factor production ownership which lacked legality as well as information and access on good quality factor production. The independent smallholder worked with minimal government intervention and company involvement. As a result, produce by independent palm oil smallholders tend to have lower production and market value in comparison to the ones by plasma smallholders.

III. The Measure of Palm Oil Sustainability in ISPO Certification

There are two narratives circulated for the creation and development of ISPO as the national certification system. The first is related to an aspect of the competitiveness of the commodity since palm oil processes were intensively reputed to effect serious damage. To some extent, European customers took the information seriously by acting and intervening. France, where the famous *sans huile de palme* movement initiated admonishments for consuming palm oil citing environment degradation, animal welfare, and health concerns, encouraged the use of *sans hui de palme* labels on food products. It has also increased import tax for palm oil; the European Parliament has also received a motion for a resolution from the European Commission, (2016/2222(INI) to control palm oil production and avert further deforestation. Various initiatives have made palm oil less competitive in the EU as compared to soybean, sunflower, and rapeseed.

The government of Indonesia (GOI) believes that ISPO certification will be perceived as an initial effort to create trust between palm oil producers and consumers, especially in European countries. In doing so, the GOI takes ISPO certification as a form of state legal commitment in tackling adversity from palm oil development. This may be seen in the initial version of ISPO certification from the Ministry of Agriculture's regulation No. 19/Permentan/OT.140/3/2011, which provides guidelines for the

production of sustainable palm oil. This document presented an obligatory schedule for compliance and clear sanctions for palm oil companies to obtain ISPO certification.² This government regulation was revised in 2015 with the issuance of the Ministry of Agriculture's regulation No 11/Permentan/OT.140/3/2015 for the ISPO certification system. There have been several changes especially on the object of certification (article 2), degree of enforcement (article 2), period of compliance (article 3), agent for imposing sanctions (article 4 and 10), and the form and mechanism of sanctions (article 4,6,7,8).

<Table 1> Comparison of Indonesia's Agricultural Ministry regulations No. 19/2011 and No. 11/2015: Indonesian Sustainable Palm Oil (ISPO)

	ISPO 2011	ISPO 2015
Object of Certification	Company	· Company · Smallholder
Degree of Enforcement	Mandatory	· Company: Mandatory · Smallholder: Voluntary
Responsible Agent for Sanction	Not Clearly Regulated	· Head of District/Mayor/ Governor/Director General of Plantation
Form of Sanction	· Downgrade of Plantation Class (I/II/III) to Class IV · Withdrawal of plantation license permit for Plantation (Class IV and V)	Downgrade of Plantation Class (I/II/III) into Class IV; if the company does not obtain the ISPO certificate, plantation license permits will be withdrawn

Source: Regulations of Indonesian Ministry of Agriculture, No. 19/2011 and No. 11/2015

² Article 2 of the Ministry of Agriculture's decree No 19/Permentan/OT.140/3/2011 states that palm oil companies are obliged to follow national laws protecting the industry and promoting sustainable palm oil as demanded by the market. Mandatory compliance is further elaborated in the ISPO guidelines. Meanwhile, article 3 stated the due date for compliance was on December 31, 2014. Article 4 mentions sanctions for company defiance, which ranges from downgrading the company's status to revoking business permits.

Table 1 indicates that the target of certification is broader in more recent regulation. A company is not only the object of certification but also the smallholder. Even so, it is not mandatory for smallholders. ISPO certification is mandatory for all palm oil companies operating in Indonesia—the palm oil plantation’s companies, those operating palm oil processing, and those integrating palm oil plantation and processing industries (details are provided in Table 2). All these companies, including classes I, II, III plantations³, have to register ISPO certification no later than six months after the enactment of regulation No. 11/2015, March 18, 2015. If companies do not comply by this date, they were sanctioned with their plantations being downgraded to class IV. The head of district/governor/ministry may also withdraw the plantation license.⁴

ISPO certification consists of seven unique principles of sustainability (Table 2). These principles are (1) licensing system and plantation management, (2) technical guidelines for palm oil cultivation and processing, (3) environmental management and monitoring, (4) responsibilities for workers, (5) social and community responsibility, (6) strengthening community economic activities, and (7) sustainable business development. From these principles, we may conclude that ISPO certification is aimed at harmonizing economic, environmental, and social aspects to achieve sustainability. However, within the characteristics of Indonesian palm oil plantations, mostly managed by smallholders, five of the principles (1,4,5,6,7) are related to social aspects. This does not mean that ISPO certification is less sustainable compared to other private certification initiatives on palm oil such as RSPO that contain more balanced principles and indicators to prevent free riding in sustainable management.

³ Based on Ministry of Agriculture Regulation No. 7/2009, the Ministry of Agriculture determined five classifications for plantations. Class I is given to very good plantations. Class II is for good plantations. Class III is for medium standard plantations. Classes IV and V are for lacking and bad plantations. Classes I, II, and III classes have the right to apply for ISPO certification, while Classes IV and V have to improve their performance before classification.

⁴ The head of a district can give or withdraw a plantation license if the plantation area is within one district. If the plantation area is in two or more districts, the plantation licensing is done by the governor of the province that covers those districts. If the plantation area lies in two or more provinces, licensing becomes the responsibility of the general director of plantation, Ministry of Agriculture.

<Table 2> Principles of ISPO Certification for Palm Oil Companies and Smallholders

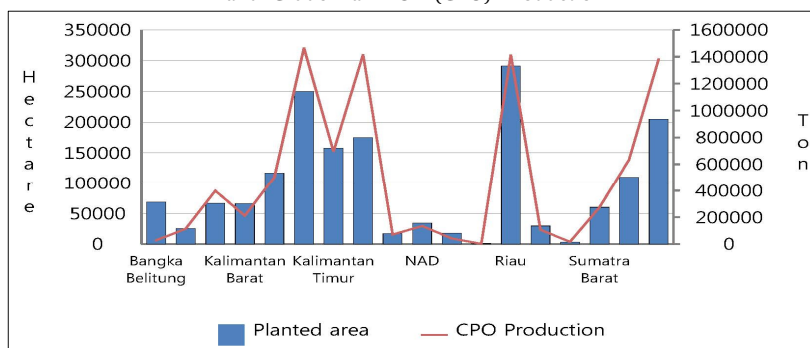
No	Description	ISPO 2015		
		Company	Smallholder	
1	Object of Certification	Plantation	Plasma	Independent (Swadaya)
2	Scheme	Mandatory	Voluntary	Voluntary
3	Object of Audit	Company	- Manager - Cooperative/Farmer Group - Farmer (Owner or Worker) and their Farm	- Cooperative - Farmer Group - Farmer (Owner or Worker) and their farm
4	Criteria	- Plantation Legality - Plantation Management - Primary Forest and Peatland Conservation - Environment Management and Surveillance - Labour Responsibility - Social Responsibility and Economic Empowerment of Community - Improvement of Sustainable Business	- Legality of Plantation - Management of Plasma Plantation - Environment Management and Surveillance - Working Safety and Healthy Responsibility - Social Responsibility and Empowerment of Community - Improvement of Sustainable Business	- Legality of Plantation - Farmer Organisation and Management of Business - Environment Management and Surveillance - Improvement of Sustainable Business
5	Requirement	- Plantation License Permit (IUP/IPU-P/IUP-B/SPUP/etc.) - Right of the Lands - Environmental Permit - Class of Plantation Determination (I/II/III) from Head of District /Mayor/Governor/Director General of Plantation	- Document of Plantation Formation - Copy of ISPO Certificate from Nucleus Plantation (<i>Kebun Inti</i>) - List of the Group Member Names - Right Over the Lands: Land Ownership (<i>Surat Hak Milik, SHM</i>)	- Document of Cooperative/Farmer Group Formation - List of the Member's Names - Land Ownership such as <i>Surat Hak Milik, Letter C/Girik, akta jual beli</i> or Legitimate Other

Source: Regulation of Ministry of Agriculture No. 11 Year 2015

The requirements for ISPO certification are shown in Table 2. The company or smallholder is responsible for fulfilling the sustainability criteria, including the operation's environmental, legal, and social aspects. Emphasis on the legality aspect is aimed at reducing potential social conflict that usually occurs between a company and the traditional (*adat*) community around plantation areas. This requirement is not only applied to a company but also to smallholders who want to gain ISPO certification. It is relatively easy for companies to fulfil this legal aspect, but few companies are holding ISPO certification.

Currently, approximately 225 companies have received ISPO certification. They have planted almost 1.7 million hectares and produce 8.9 million tons of certified palm oil. This comprises 14% of the total plantation area in Indonesia and 28% of total palm oil produced. Riau Province produces the most certified palm oil in Indonesia. Figure 1, shows how the province has 291,529 hectares of ISPO certified planting area, or 13% of total province area, and produces 1.4 million tons of certified palm oil (CPO) or 28% of the total produced. It is followed by Central Kalimantan with 249,887 hectares (22%) and a relatively similar tonnage of produced CPO (46%). This figure will not change much in the future, unless the government seriously creates an effective governance system for ISPO implementation by creating schedules for implementation and actively punishing companies who do not comply.

<Figure 1> Company ISPO Receivers Based on Regional Distribution, Planted Area and Crude Palm Oil (CPO) Production



Source: ISPO online Report, February 2017

As mentioned above, the certification is not only for companies, but also for smallholders, even if it is still under a voluntary scheme. Since 2013, the ISPO Commission has appointed four smallholders, three *plasma* smallholders, and one *swadaya* smallholder in Riau Province as ISPO pilot projects. Until now, from four pilot projects, only one smallholder has been certified by ISPO. This situation indicates that smallholders find it difficult to obtain the ISPO certification even if appointed to be an ISPO pilot project. It can be assumed that others will find it more difficult (see table 2). This is deemed most difficult for independent smallholders (*petani swadaya*). A plantation owner has to prove land ownership by presenting official land deeds, *surat hak milik* (SHM); the plantation must also be outside a company's concession rights or *hak guna usaha* (HGU). This condition hinders independent smallholders to gain ISPO certification. The implementation of ISPO certification is not well not popular among palm oil plantation smallholders, despite the need for it come 2020. The central government must realize that ISPO implementation still requires a lot of work.

IV. Rimba Polon Appointment as ISPO Pilot Project for Smallholder Certification

In the beginning of 2015, the Directorate General of the Ministry of Agriculture initiated ISPO certification for smallholder projects. With the involvement of the United Nations Development Program (UNDP), four cooperatives were chosen as pilot projects. These cooperatives were Cooperative Amanah, Cooperative Mulia, Mulia Amanah, and Cooperative Tandan Bertuah. The first three cooperatives are located in the Pelalawan District and operated under the auspices of PT. Inti Indosawit Subur and PT. Sari Lembah Subur,. Meanwhile, Cooperative Tandan Bertuah is supervised by KTU in the Siak district. These cooperatives were determined as pilot projects for the simple reason that they were the only communities with cooperatives under the company's supervision.

Among these companies, KTU is unique for two reasons. First,

claim is apparently weak against the company's *de jure* ownership. This ownership overlap has consistently created tension within the community and protests occurred in 1997 and 2007.

Interestingly, the tension seemingly never escalated into violent conflict. This is because KTU treated the Rimba Polon as similar to a plasma community on the concession. This led to engagement and cooperation, enhanced by continuous corporate social responsibility programs. For instance, a program called income generation activity (IGA) has enabled members of the Rimba Polon community to make loans for fertilizers at 0% interest, as well as transportation aid, cooperative formation, and better community infrastructure, such as roads and schools. These are but a few examples of how KTU recognized the community's place in the concession. There were also formal recognitions of community land. For instance, PT Astra Agro Lestari reports in Quality Convention 2006 that 278.5 hectares of the land belonged to the Rimba Polon community (PT Astra Agro Lestari 2006). Another was in the form of a community map displayed for a cooperative-company electricity project in 2017; it showed that 721 hectares of land are for the Rimba Polon community. This latest area measurement is close to the claim by the *adat* leader as consisting of their traditional land.

Rimba Polon community also has a changing demographic composition especially with regards to ethnic composition. In a June 2016 report, the Rimba Polon community consisted of 260 households with total inhabitants of 535 men and 506 women. This number was two times larger than the ones provided by the head of the Sungai Padang village: only 103 households. My one and a half month-immersion in the Dusun from December 2016 to January 2017 concurs with the lower figure. The difference in figures is explained by the movement of people in and out of the community; while they may have moved, they still hold proof of eligibility as a community member of Rimba Polon. This can take the form of land ownership or a registration card. A sub-district officer reports that this difference may also be related to village politics, as communities also try to reap funding from the central government. Numbers matter in the transaction. Unfortunately, further details of household demographics are not available due to Dusun's lack of data, mostly

supplied by insufficient oral information describing population composition and social attainment. A household survey was then conducted during the period of my stay.⁶ The survey showed that the Rimba Polon community is comprised of several different ethnicities: Batak, Melayu (Malay), Java-Medan (Jawa-Medan) and Java (Jawa). These ethnic groups represent 12%, 32%, 36% and 20% of the population, respectively.

According to the traditional leader or *adat*, the Melayu were the dominant ethnic group in the Rimba Polon community for several decades. However, the influx of other ethnic groups changed this, since the Melayu were also very open and accommodating. Other ethnic groups may acquire *adat* land as long as they stayed and pledged not to sell the land without permission. To some extent, this practice was the norm until the present day. Newcomers were welcomed as long as they can blend with present community members. There is no formal introduction with the *adat* leader; apparently the *adat* institution and structure has isolated the leader in the community. The Melayu ceremony or *menumbai* of harvesting honey has been long forgotten with the disappearance of *sialang* trees from the land. The *limau* or lemon tree is as important in most Melayu *adat* ceremonies as well as for traditional healing rituals, but it is now rare to find one in front yards. The Melayu still carry out daily Islamic religious practices, with a main *imam* reciting traditional Al-Quran during prayers, although, this is slowly being challenged by the emergence of an Islamic purification movement in the community.

Rather than resisting, the *adat* leader and the Melayu community appear to negotiate and accept the newcomer's socio-cultural values. This is illustrated in the adoption of the *arisan* for marriage and funeral ceremonies in 2005, where every member of the community joins to support families in these occasions, and their financial support detailed in family records. In the future, families are expected to give the same amount of support to other community

⁶ The household survey was conducted between December 2016 and January 2017. This survey mainly asked for family history, land ownership, income, expenditure, and knowledge of ISPO certification. Fifty randomly selected households agreed to be respondents.

members. For a funeral ceremony, there is a regular monthly payment of IDR 10,000 or around US\$0.75 for flowers and equipment, assuring that ceremonial expenses can be paid. Likewise, the community indirectly sees *arisan* as a form of saving. The community pays into the *arisan* amounts ranging from IDR 200,000 (US\$ 14.95) to 800,000 (US\$ 59.77). This amount depends on household financial capability and their projection of expenses for future ceremonies. For the last two years, the community also initiated a system similar to *arisan* by collecting monthly household goods such as frying oil, soap, and detergent. Although the number of participants is limited compared to the two previous *arisan*, the community appears to enjoy this mechanism of mitigating livelihood problems. During my visit to this village, the community was starting to discuss the possibility of applying the *arisan* system for replanting their oil palm trees.

Tension with a newcomer's values had previously intensified but de-escalated through community communication. The first flow of newcomers into the area was mostly from North Sumatra, especially the Batak. Their previous experience working in plantations as farm workers and fruit transporters made them successful in

<Picture 1> The Tandan Bertuah Cooperative in Rimba Polon



Source: taken by author

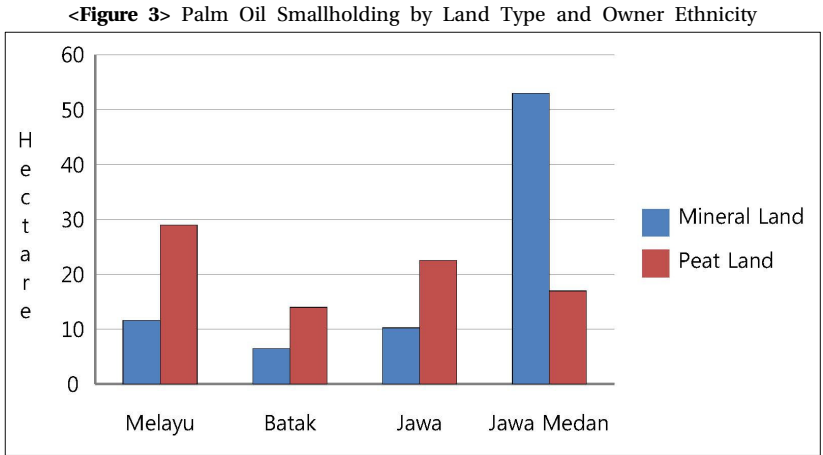
Rimba Polon. Unfortunately, as fruit buyers and collectors (*Touke*), their presence was deemed threatening by community. They were considered dishonest and arrogant. The tension intensified when religious beliefs corroded the relationship. The Melayu and the second flow of newcomers, descendants of Javanese from North Sumatra or Java-Medan, worked together to solve the unhealthy relationship. The tension was overcome when Batak *Touke* agreed to leave Rimba Polon. The *adat* leader and Java-Medan took responsibility in paying for their debt. This started a new beginning for the cooperative in the Rimba Polon community, as well as the company's direct involvement in the community.

Initially, the company helped the community to set up a cooperative. This was followed by financial aid in the form of credit to help the cooperative run. The first financial instalment was used for a cooperative fertilizer business. Within one year, the cooperative successfully returned the credit amount of IDR 70 million to the company. This was then followed by a second loan amounting to IDR 100 million. Although this loan was bigger, the cooperative was able to return it within eight months, and their successful cooperation continued. In 2013, the Rimba Polon community area was chosen as an ISPO pilot project area by a company officially appointed by the ISPO commission. KTU invited the cooperative committee and funded their travel to the ISPO coordinating and socializing meetings since 2011. This was followed by three days of training in the community, facilitated by KTU together with a team from the Directorate General for Plantation, Ministry of Agriculture, in preparation for the ISPO certification in 2015.

V. Rimba Polon Community's Economic Image in Mid-ISPO Project Implementation

The Rimba Polon community has been on hold as an ISPO pilot project area with its ISPO certification still to be decided. Despite this, the pending status has allowed them to receive windfall profit. This profit is tangibly seen in community lending initiatives received from financial institutions such as banks and village-owned enterprises called *Badan Usaha Milik Desa* (BUMDES). These offer

low interest rates and directly target households in the weekly community market. The strategy appears to be successful as there are now 29 household users registered under BUMDES. With a recent maximum credit limit of Rp.15 million, these households use loans to buy land and build houses for the homeless or renovate houses. Previously, the community was able to loan up to Rp.30 million, and the amount of the loan was dependent on the ability of the household to gather land certificates from family or community members and register them as BUMDES liabilities. It has enabled them to group their scattered smallholding into a single-unit vast holder closer to their livelihoods.



Source: Household Survey in Rimba Polon conducted by author in 2016 – 2017

In addition, such easy requirements from the BUMDES also provide opportunities for the community to make better land investments by replacing their peat land smallholding with high-value mineral smallholding. This was particularly beneficial for the Jawa-Medan that had a higher concentration of mineral smallholding compared to that of the Melayu, Batak, and Jawa. It was very easy for this ethnic group to borrow land certification from their groups. Due to some violations, this requirement only lasted for five years, between 2007 and 2012. This change requirement for loan and credit limits gave the community a taste of banking services from Bank Rakyat Indonesia (BRI).

The high level of trust in the Jawa-Medan community gives the community access to bank services. A member of Jawa-Medan community who wishes to expand smallholding is able to ask for help from more affluent peers by “borrowing” land certificates. In this “borrowing” system, the affluent peer is usually one who has more than one land certificate and is well-connected with the bank. On behalf of his peer, this member registers the loan to the bank using his land certificate. In turn, the community fulfils the monthly bank obligations. This is a system followed by the Jawa-Medan community, but not by other ethnic groups. Recently, they have used the bank’s financial services for other purposes mentioned such as purchasing luxury goods, such as expensive cars.

As shown in figure 5, Jawa Medan has own more mineral smallholding compared to other ethnicities. For reference, the cost of this land is quite enormous, reaching IDR 100 to 150 million (USD 7,700 – 11,500) for land with palm oil trees planted 5 to 10 years ago. Bank loan services can cover around IDR 50-100 million (USD 3,800 - 7,700), which depends on land location, productivity, and personal trust with bank officers. The Melayu, who follow similar patterns of access to financial services, have enjoyed relatively similar results. Meanwhile, levels of trust, measured by the willingness to lend land certificates between them and the Batak and Jawa communities, has hindered them land ownership expansion using services from banks. Thus, ethnic group BUMDES is particularly important in financing sudden expenditures such as house renovation, school payment, or new motorcycles.

However, the bank offers credit, not only because of the community’s status as an ISPO pilot project, but also because of the productivity of the palm oil. In terms of land ownership, the Jawa-Medan community has the largest land possession among other ethnic groups. Based on the survey, the community owned 70 Ha of land, followed by the Melayu, Jawa, and Batak, which hold, respectively, 41.6 Ha, 36.3 Ha, and 20.5 Ha. Interestingly, palm oil productivity among these ethnic groups is almost the same, reaching averagely 1.7 ton per hectare. Easy access to fertilizer and the plantation age, which yield best within 15 years, are two factors that underline productivity. With this productivity, the Rimba Polon

community enjoys around USD 250-300 monthly income from 1 Ha of smallholding as the company set the price to Rp. 1300-1500/kg. This productivity is almost similar to that of the plasma smallholders. As independent smallholder, the Rimba Polon community's palm oil productivity achievement is remarkable.

VI. The Acceptance of ISPO Implementation for Rimba Polon Smallholders

It is important to note that cooperation between PT KTU and Rimba Polon smallholders is actually based on tension and leverages. The Rimba Polon smallholder cultivates the status as PT KTU supervises the community in selling their palm oil as well as provides for infrastructural projects. In exchange, the community maintains the security of the PT KTU palm oil plantation. Indeed, with this cooperation, PT KTU can protect the plantation from thievery, fulfil obligations to supervise the community, and prevent conflicts to escalate within company concession—all in the spirit of trust, despite conflicting land status.

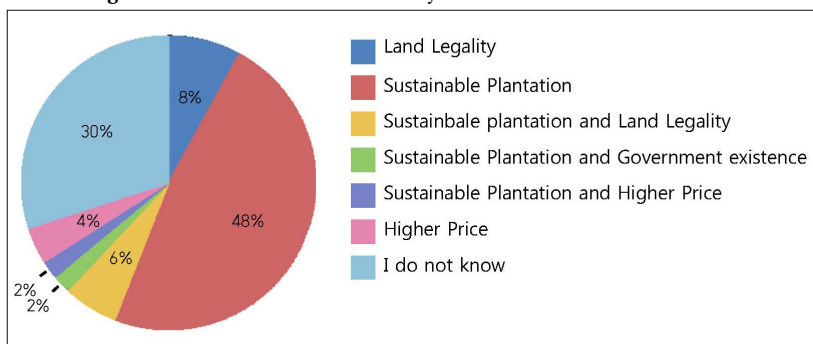
Two years after the ISPO training, a household survey revealed that 30% did not participate mostly because of work. Even so, some of them received training and information from their neighbors. 48% of the respondents can recall the training and were able to define ISPO certification as procedures for sustainable plantation (see figure 4). According to them, the procedures cover activities such as scheduled fertilization, no burning methods to be used on the plantation, cutting grass and weeds rather than using poison, choosing good seeds, and the importance of administration and cooperatives. Interestingly, only 8% of the respondent believed that ISPO certification is very important to determine the legality of their plantation. Other respondents said that the ISPO certification is a way to get a better price, and to some extent, shows that the government is still active within their community.

<Picture 2> The Certification of ISPO Training in Rimba Polon



Remarks: An ISPO training participant holding a training certificate. This training conducted by Department of Agriculture of Siak District in 2015 aimed to cascade ISPO certification requirements for palm oil smallholders in the Rimba Polon Pilot Project. (Photo by the author)

<Figure 4> Rimba Polon Community Definition of ISPO Certification



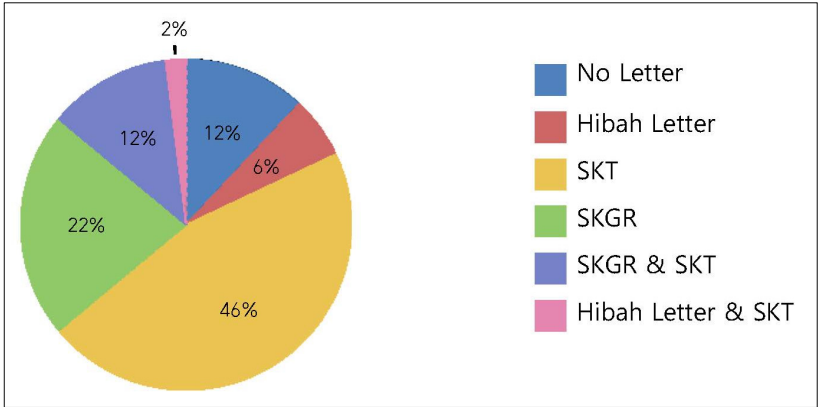
Source: Household survey in Rimba Polon conducted by the author between 2016 and 2017

To a certain extent, community understanding of sustainable palm oil is limited. The community prefers to use machine blade or *mesin babat* to cut weeds. They feel the benefit of increasing production by reducing poison usage to clean their palm oil

smallholding. They also recognized the risk of the burning method and communally prepared water canals. Furthermore, the community also noted the importance of regular fertilization, though this is yet to be accommodated by cooperative.

The perceived acceptance of ISPO certification in the community is interesting. Because the Rimba Polon community is living in a KTU concession, its livelihood can be taken over by the company any time. Currently, the community in Rimba Polon mostly holds *Surat Keterangan Tanah* (SKT) as proof of land ownership; this is a legal proof of previous land transactions acknowledged by the head of a village. SKT can further be enhanced through an acknowledgement from the head of the sub-district and the conversion of the letter into a *Surat Keterangan Ganti Rugi* (SKGR). Figure 5 shows that 22% of the community hold an SKGR, costing around Rp.1.5 million per hectare of land. This relatively high cost caused 46% of the community to defer this process; they were satisfied by having SKTs for their land. Meanwhile, others still have an original *Hibah* letter, proof of transactions or transfers of land ownership, which usually occurred between the *Melayu* and newcomers. Unfortunately, these types of ownership cannot be changed into *Surat Hak Milik* (SHM) to be acknowledged by the central government’s National Land Agency (*Badan Pertanahan Nasional*, BPN).

<Figure 5> Rimba Polon Community Land Ownership Types



Source: Household survey in Rimba Polon conducted by the author between 2016 and 2017

At its best, ISPO certification can be used as an additional recognition for *de facto* ownership. In the long run, it is highly likely that the Rimba Polon community's participation might lead to the company awarding them the ISPO certification, granting them their current concession, by the time KTU renews its HGU permit in 2033. This the community hopes—that the company gives up the HGU they cultivated, while they maintained a good relationship with it. Meanwhile, for the current situation, ISPO certification appears to have tangible implications for smallholder organizations and management other than improving commodity prices. The acceptance of ISPO as mechanism to improve sustainability on smallholder plantation works in accordance with the effort of strengthening their presence in the concession.

In addition, unlike private certifications, ISPO certification does not specifically describe a mechanism for the certified community to receive premium prices. Rather, the ISPO certification relies on a company's social responsibility to give equal advantage to the community. Consequently, communities might respond unsatisfactorily because of their high expectations. It is also quite simplistic to relate better prices with the redirection from domestic to international markets. KTU still serves the domestic market and relies on the central administration in Jakarta to determine prices (interview with manager of KTU).

VII. Conclusion

Incorporation of societies to satisfy mass production and consumer interests can bring beneficial implications and challenges. Commodity certification, such as the ISPO, is a tool that enables smallholder palm oil production to tap global capital flows. The insertion of sustainability criteria into certification, on one hand, is a requirement for the commodity to be accepted in the global market. On the other hand, ISPO certification initiated by the Indonesian government, has indirectly opened a way to re-register catastrophic land ownership and licensing operations for palm oil plantations. Unfortunately, the implementation of ISPO certification as a governance system is far

from effective. The Indonesian government is inclined to use ISPO certifications more as a diplomatic way to balance the on-going global clamor to not consume palm oil. This has created imbalances in ISPO implementation in Indonesia, and coordination and trust among agencies have not been cultivated, making it difficult to compel palm oil companies to implement ISPO certification.

KTU uses ISPO as a single certification implemented on their plantations. Consequently, the sustainability principles of ISPO certification should be carried out. KTU inserted the obligation for social sustainability principles as part of a social responsibility project that has been conducted in the past decade. Partnership between the company and the independent smallholders of the Rimba Polon community is still on-going and was accelerated with the decision to include the community in an ISPO project for smallholders. The strong cooperation among the diverse ethnicities in the Rimba Polon community has become a means to negotiate with the company for the building of roads, putting up of electricity, carrying out of cooperative development, and to a certain extent, replanting.

However, the Rimba Polon community is living as an independent smallholder in the truest sense. The community may have good relations with KTU but this does not make them dependent on the company. The Rimba Polon community is accustomed to gather together in finding solutions for their problems. *Arisan* is their method to communally communicate and ease financial burdens. Interestingly, the Rimba Polon community is looking at the possibility of applying this system to household expenses and future replanting costs.

Being an ISPO pilot project area, the Rimba Polon community enjoys wide access to financial institutions, from government-initiated financing such as BUMDES to private banking institutions. This enables households to enjoy luxury goods, such as cars, motorcycles, and stone houses, and also facilitates the exchange of their scattered plots of land for single plots and access to mineral land for plantation rather than peat land. These manifests strong community presence in the concession land.

The relationship of the community with ISPO implementation is quite minimal but the Rimba Polon community accepts ISPO certification as a sustainable method to manage their plantations. For one reason, this is smallholder strategy to maintain *de facto* presence in the company concession, by way of letters of land recognition from heads of villages and heads of sub-district villages as well as the display of economic successes around the neighborhood. This serves to protect them, knowing that KTU possesses legal power from the central government to take over their lands in Rimba Polon at any time.

Land legality problems, in practice, have not yet been accommodated into the ISPO certification system. This of course creates a possibility for the exclusion of prospective farmers. Approaches to legality should not be fixed by a one-state solution. The Rimba Polon Community existed before KTU started operations. Maintaining the beneficial and ongoing relationships among the community should be considered as a mechanism for company-community land grants (*hibah*).

For independent smallholders living in concession, governmental program such as the ISPO is a much-awaited recognition measure. This is not only because they perceive it as solution to land conflicts with companies. Working in accordance with ISPO makes their *de facto* presence stronger. Therefore, rather than resisting such programs, the communities tend to cooperate. This is how communities make sense of ISPO implementation and thus legitimate it.

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