



Investing for Sustainable Return

The Investment Case of Jurisdictional Approach in Seruyan, Indonesia

01/2022



The Overview of Palm Oil Industry in Indonesia: Production, Consumption, and Trade

Indonesia, by far, is the largest palm oil producer in the world, with a total production of 48.3 million tons, which accounts for 60%¹ of the global supply in 2021. Over the past five years, Indonesia's palm oil output has shown an increasing trend, with an average growth rate of 9.98% per year (figure 1).

However, in 2020, palm oil production started to decelerate, which only grew 2.28% from the previous year (Figure 1). The current oil palm plantation is still concentrated in Sumatra and Kalimantan Island, where Central Kalimantan Province and Riau Province are the two largest palm oil producers with 36% of the national production rate. In line with the growing production rate, the oil palm estate also grew significantly to reach 15.1 million hectares where the private companies own 55.8%, state-owned companies own 6.8%, and the smallholders own 40.8%². A more robust palm oil output is expected to recover in 2022, stemming from good management practices and the absence of the La Nina impact³. Although Indonesia's palm oil production outlook is predicted to result even higher in 2022, the country encounters complex challenges that link to unsustainable agricultural practices which can curb the crops' productivity in the near term. Moreover, palm oil output will also be restrained by the limitation of the agricultural area as Indonesia's government has signed a palm oil moratorium to stop new-estate opening activity⁴ to reduce deforestation and ecological degradation. Thus, replanting the estate with adherence to good agricultural practices is the key to boosting palm oil productivity in Indonesia.

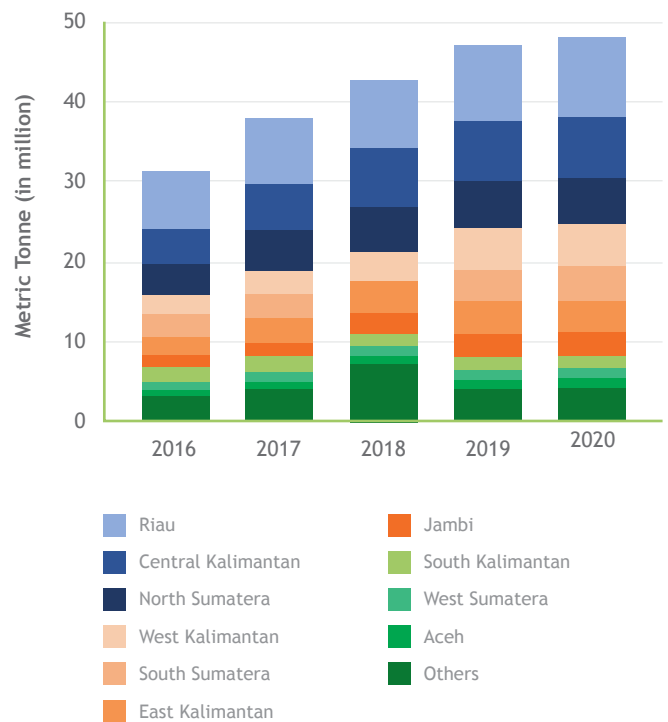


Figure 1. Top 10 National Palm Oil Production by Provinces 2016 - 2020

Source: National Statistic Bureau (BPS) (2021)

Palm oil is versatile product that can be used for different purposes, 68% of global consumption is used for food consumption, 27% is for industrial applications, and the rest 5% is for biofuels⁵.

In the past recent years, the world's palm oil consumption has shown a significant growth in, yet the export from Indonesia to the key importing countries is seen to decelerate due to the palm oil export restriction from Indonesia's government to achieve the B30 program. Nowadays, most of Indonesia's palm oil is exported, accounting for more than 56% of the total production. India (16.4%), China (15.7%), and Pakistan (8.7%) are the primary markets for Indonesia's palm oil, absorbing 40.8% of the total exported CPO and its derivatives, followed by the European countries (6.9%), and the US (10.2%) (figure 2). The economic recovery in developing economies

supported the global economic growth which is expected to further expand by 4.9% in 2022, from 5.9% to 6.1%, this is the signal that India and China as the two largest palm oil importers will increase their demand⁶. In 2022, China's palm oil consumption is expected to increase due to a lower supply of other vegetable oils and for its animal feed⁷. On the other hand, India will spur its import due to a recovery of their hospitality industry and their lower palm oil import duties. Palm oil export to the EU is expected to plummet in 2022, slashed by stricter environmental regulations set by the European Commission and unattractive palm oil prices for biodiesel⁸. Furthermore, Under the EU's renewable energy directive, palm oil-based fuels are to be phased out by 2030; the Commission projected that EU biodiesel use will fall 24% to 14.3 billion liters in 2031 after a peak at 18.9 billion liters in 2023. This import restriction is mainly linked to sustainability issues in palm oil production.

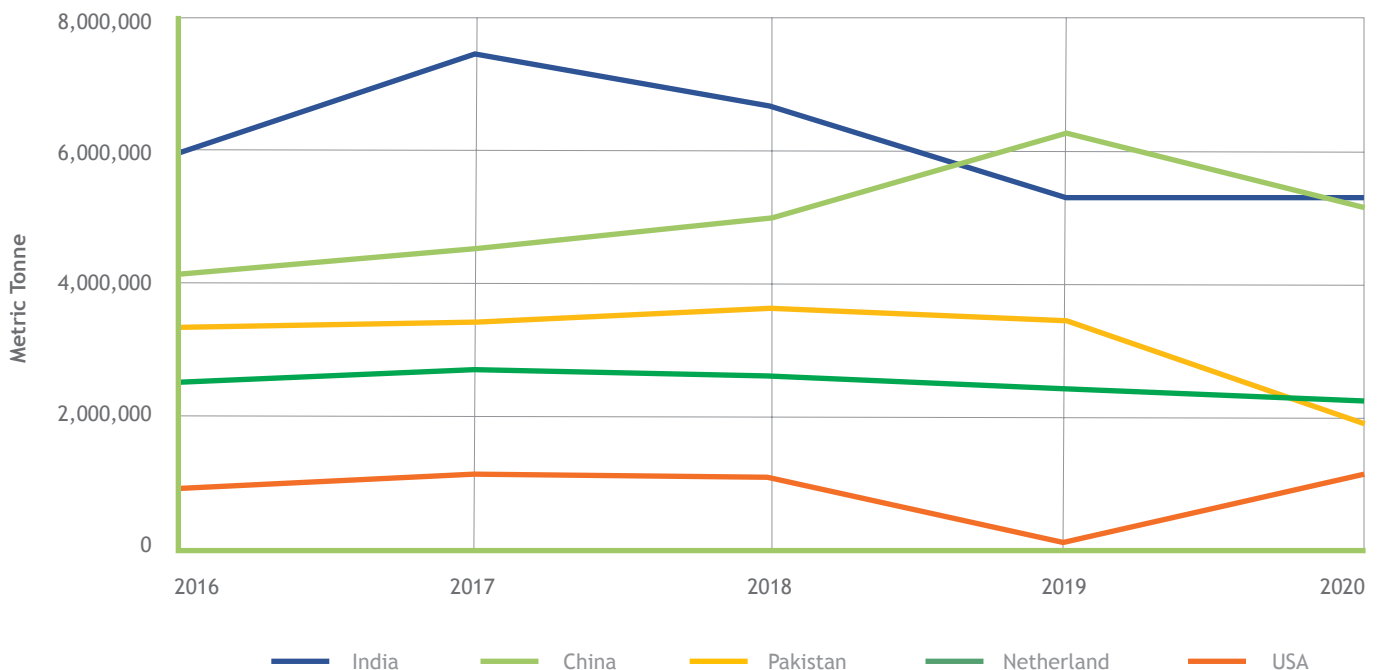


Figure 2. Top 5 Major Importing Countries of Indonesia's Palm Oil 2016 - 2020

Source: National Statistic Bureau (BPS) (2021)



Figure 3. Global Palm Oil Price from 2011 - 2021 per metric tonne

Source: Index Mundi

The phenomenon of increasing CPO price during the global economic downturn caused by the COVID-19 outbreak in 2020 is mainly due to the vigorous demand and supply shortage in two major producing countries: Indonesia and Malaysia^{9,10}.

In Malaysia, massive floods across the five states and the border's closure for foreign workers contributed to the weaker output of palm oil, which induced the prices. On the other hand, the planters' association projected weaker output growth from Indonesian estates due to a lack of new replanting, adverse weather, and low fertilizer use. Furthermore, in 2020, palm oil trading will heavily depend on the mandate for biodiesel development, as Indonesia's government has raised the B30 quota from 9.4 million kiloliters to 10.15 million kiloliters in 2022¹¹. The tight supplies of veg oils such as rapeseed, soybean, and canola oil have fueled the current high palm oil price¹². Currently, amid the high palm oil prices, major importing countries apply relatively low tariffs measured as the ad valorem equivalent

tariffs to imported crude palm oil (CPO) and refined palm oil (RPO). China applies a 9.0% and 8.5% tariff, European Union countries 1.9%, and 9%, respectively¹³. Recently, India has reduced the import tariff for CPO from 15% to 10% and RPO from 45% to 37.5%¹⁴ to restrain the cooking oil prices in the country. In contrast, Indonesia applies low export tariff for RPO to encourage investment in palm oil processing facilities across Indonesia to gain the value-added¹⁵.

Drawing from the global palm oil trade above, the green investment challenges lie in the market unpreparedness for sustainable certified palm oil. The primary markets for Indonesia's palm oil are Asian countries, where the awareness of sustainable palm oil is quite low compared to developed countries such as the European Union and North American countries. To drive the green investment on the jurisdictional initiatives for sustainable palm oil, the need for collaborative partnerships among the stakeholders is unavoidable, especially the engagement from the state actors and private sector to create the mechanism in ensuring that sustainable certified palm oil products can be absorbed fully by the vast market.

The Opportunities of Investment in Jurisdictional Approach for Sustainable Palm Oil

Smallholders Certification is a Game Changer

The jurisdictional approach is the concept where certification is applied within the jurisdictional boundaries or so-called jurisdictional entity.

The aims are to address environmental and social issues by strengthening stakeholder engagement, primarily through substantial government involvement and enabling a broader impact than single producer certification¹⁶. Jurisdictional certification seeks more significant benefits than the existing certification system while potentially driving the costs down through scale and leveraging the government’s capacity and authority. Hence, by applying the certification at the jurisdictional level, it is expected that all the stakeholders within the palm oil supply chain will be inclusive and eventually drive sustainable palm oil development.

Independent Smallholders	Scheme Smallholders	Total Smallholders
Independent Smallholders 25,597	Scheme Smallholders 143,445	Total Smallholders 165,042
Certified Production Area(ha) 62,863	Certified Production Area(ha) 351,188	Certified Production Area(ha) 470,551
FFB Certified (mt) 1,174,551	FFB Certified (mt) 7,442,978	FFB Certified (mt) 8,617,529
Total Global Certified Area (ha) 4,564,086		Average Yield (FFB/mt/ha/yr) 20.81

Figure 4. Roundtable Sustainable Palm Oil (RSPO) Number of Certified Smallholders Worldwide

Source: RSPO Impact Report 2020



Source: Shutterstock.com

The inclusion of smallholders in the sustainable palm oil ecosystem can be a game-changer to accelerate the impact of the jurisdictional approach. There are more than 3 million smallholders and small-scale farmers; RSPO accounted for 165,042 smallholders who have obtained certification worldwide with 470,511 hectares of certified plantation area¹⁷. In Indonesia's context, smallholders play a significant role in creating a sustainable ecosystem, notably due to their large number of plantation areas, which accounted for more than 6 million hectares of estate crop (40.8% out of the palm oil plantations area)¹⁸. Hence, the inclusion for smallholders into the sustainable palm oil system is a must. When many smallholders participate in jurisdictional certification initiatives, a more tangible impact will be seen in creating a sustainable palm oil ecosystem.

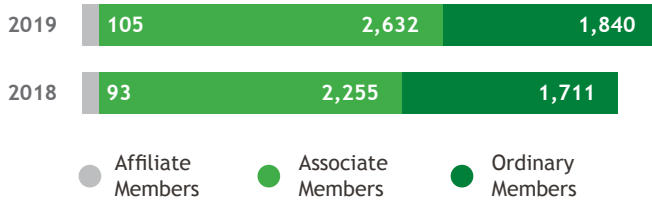
In Seruyan District, two cooperatives have obtained RSPO certification: Cooperative Sawit Jaya and Cooperative Sawit Mandiri. Both cooperatives have been registered in the Ministry of Cooperative since 2006 and received RSPO certification in 2018. Cooperative Sawit Mandiri comprises 190 independent farmers with 316.39 ha of plantation area¹⁹, while Cooperative Sawit Jaya owns 356.08 ha of plantation area with the same number of members²⁰. On the other hand, more than 8000 independent farmers in Seruyan and Kotawaringin Barat as of 2020 had been mapped and trained to boost jurisdictional certification on the smallholders. To drive more impacts, the municipal government should possess a strong commitment to regulating the tailored regulation to address the critical challenges to accelerate the jurisdictional certification initiatives in Seruyan.

These are the following impacts from the strong engagement of smallholders in the initiatives:

1. **Traceability Improvement** Tracing the source of origin in sustainable palm oil is important to ensure that the palm oil is legally sourced as well as produced from an environmental and social conflict-free area. When the smallholders are certified, it means they are registered and when the government can identify smallholders - who they are and where their plantations are, the public trust and confidence will be increased.
2. **Reputational Benefit** When many smallholders are engaged in jurisdictional certification initiatives it shows that the district government has a strong commitment to support the initiatives which eventually leads to public trust and confidence to bolster the green investment at the jurisdictional entity.
3. **Cost reduction in complex palm oil supply chain** RSPO certification will ensure that smallholders will have the benefit of better pricing and an ideal palm oil supply chain which is mutually beneficial to both mills and smallholders.
4. **Cost reduction in tenure conflict** There are 300 conflicts happening between the private sectors and indigenous communities/smallholders in Seruyan, which is costly for the private sectors. Jurisdictional certification upholds the strong engagement among all the stakeholders which potentially reduces conflicts.

Bigger Market, Bigger Opportunities. New Actor Engage and Institutional Support

OUR MEMBERSHIP



ORDINARY MEMBERSHIP



TOP 13 COUNTRIES OF RSPO MEMBERSHIP (as of 31 December 2019)



Figure 5. Roundtable Sustainable Palm Oil (RSPO) Global Membership Reachout 2019

Source: RSPO Impact Report 2019

Roundtable for Sustainable Palm Oil (RSPO) is an organization, a not-for-profit that aims to unify the stakeholders from the seven sectors which are processors or traders, consumer goods manufacturers, oil palm producers, retailers, banks/investors, and environmental and social non-governmental organizations (NGOs), to develop and implement global standards for sustainable palm oil. The RSPO has launched a set of ecological and social criteria to be complied with

to produce Certified Sustainable Palm Oil (CSPO). The number of RSPO members has increased significantly every year since it was inaugurated RSPO, nine years ago. In 2019, the membership reached 4,577 from 558 in 2010 within 94 countries/territories, and the RSPO is committed to working continuously to support the growing number of members worldwide (figure 5).

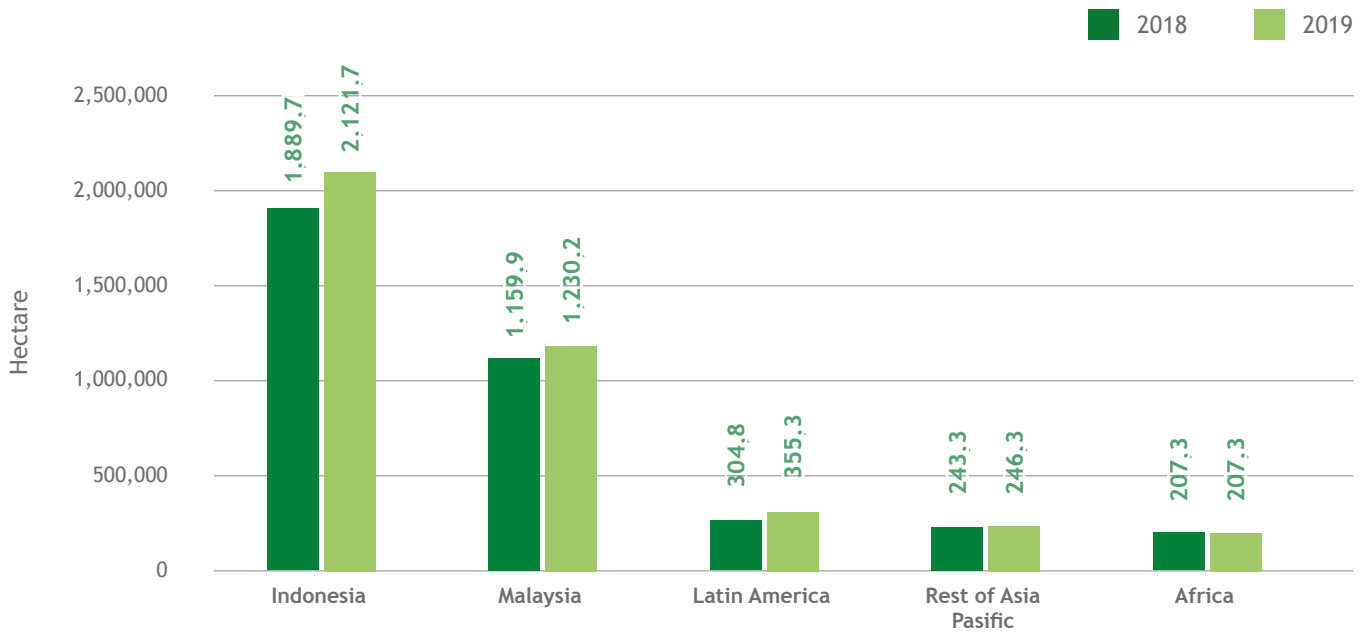


Figure 6. Roundtable Sustainable Palm Oil (RSPO) Certified Area by Region

Source: RSPO Impact Report 2019

In line with the growing number of members, the RSPO certified area of estate crops has also been growing rapidly worldwide. RSPO P&C certified area grew by over 9% year-on-year to 4,160,925 hectares across 17 countries by the end of 2019. Indonesia and Malaysia remained to be the largest palm oil producers collectively, covering 81% of RSPO’s total certified area. In Latin America, the certified area has increased by 16% since the last reporting period (figure 6). The recent update showed that 4.56 million hectares of palm oil plantations have been certified.

As of 31 December 2019, there were 412 certified palm oil mills with an annual certified production volume of 15,192,356 metric tonnes of Certified Sustainable Palm Oil (CSPO) and 3,383,788 mt of Certified Sustainable Palm Kernel (CSPK), reflecting a 13% and 11% year-on-year increase respectively. The total certified production area cultivated by RSPO members is recorded at 3,051,930 hectares, a 9% increase from 2,807,377 hectares in 2018. The certification progress worldwide is indeed a good sign that the jurisdictional certification will also be visible to implement in Seruyan. Thus, when more actors engage in the initiatives, it can accelerate the impacts of jurisdictional certification in terms of premium market access and the increasing trust and confidence of investors to channel their investments at the jurisdictional level.

Niche Market with Growing Opportunities

Estimated Actual Production of RSPO Certified Sustainable Palm Oil

 **14.6** million tonnes **18.7%** of Global Palm Oil Production

In 2020, the RSPO achieved 4.56 million ha of CSPO production area and the amount of production reached 14.5 million metric tonnes (18.9% out of the total global palm oil supply)²¹.

The trend of actual production for RSPO-certified mills increased over the years. In 2020, the total actual production was around 12.1 million metric tonnes, compared to 11.2 million metric tonnes. Along with the increase in actual production, the sales of RSPO-certified mills also increased within several sales schemes. The market absorption for RSPO-certified palm oil was more than 55% in 2020, followed by the other schemes which RSPO could not identify as it may be under other sustainable palm oil certifications. The essential key takeaway is that the market for RSPO-certified palm oil is present and projected to increase over the years, but the beneficiaries, mainly smallholders, do not have access to sustainable palm oil. The need schemes to connect a specific jurisdiction with a specific market may be needed to drive the impacts and deceleration of the initiatives in the future. The RSPO can connect the jurisdiction with the specific market.

RSPO-CERTIFIED MILL SALES (million)

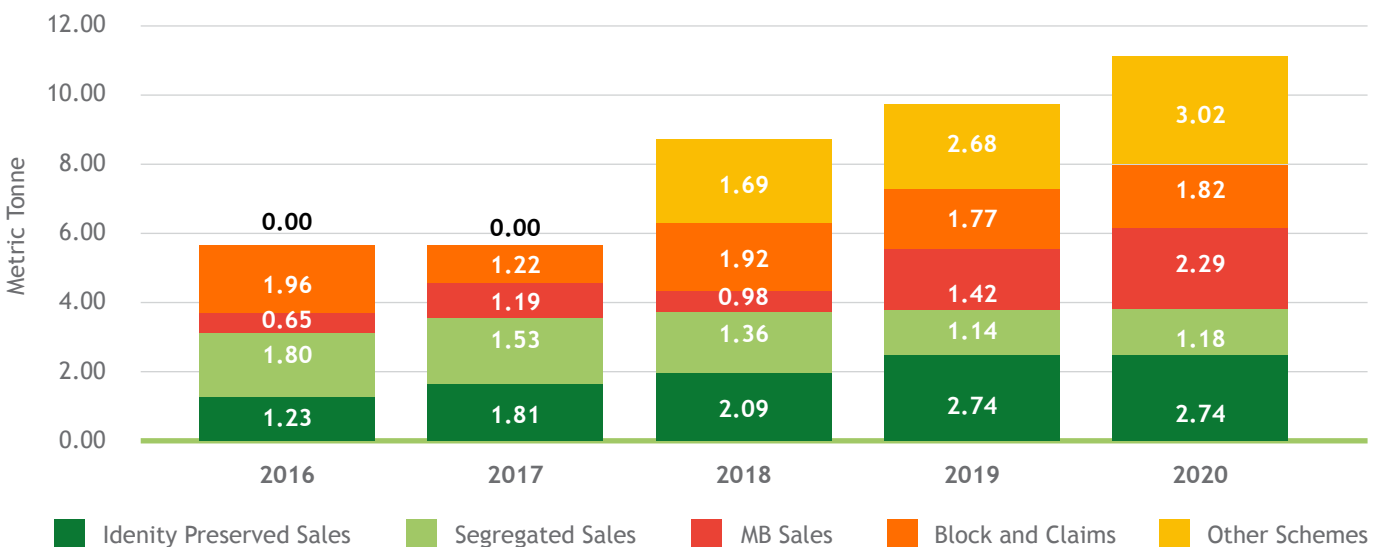


Figure 7. Roundtable Sustainable Palm Oil (RSPO)-Certified Sales in 2020

Source: RSPO (2020)



Source: istockphoto.com

Enabling Environment in Facilitating Sustainable Palm Oil Investment

The Role of Key Stakeholders

The keyword for the success of jurisdictional certification is mutual-cooperation among the stakeholders. The jurisdictional approach cannot be achieved solely by the government or the private sector. It has to involve all stakeholders in taking their role to support jurisdictional approach implementation. The government is an initiator to take the leadership role in the multi-stakeholder platform of the jurisdictional approach, especially for the sub-national level (province and district). The reason to place the government as the initiator is that government has the political mandate to make decisions and hold the highest authority within the jurisdiction²². In the case of Seruyan, the municipal government has shown interest and support for jurisdictional certification initiatives. In this case study, stakeholder mapping in Seruyan has been made to know their power and interest according to the power and interest matrix. DPRD/district parliament has high power and is moderate in the interest of the jurisdictional approach initiatives, DPRD has the power to regulate the regulation which will be the basis of jurisdictional approach legality. In the second position is District Regent (Bupati) which has high power with moderate interest, Bupati/Regent

has the authority to propose the regulation to support the jurisdictional certification initiatives to the DPRD/parliament. The bodies such as BAPPEDA, DKPP, and DKP PTSP are under the direct order of the Bupati/Regent, and they do not have the authority to regulate/conduct an activity without the regent's permission. At the provincial level, the government has less power with moderate interest. The provincial government cannot directly interfere with internal affairs.

Meanwhile, the private sector and smallholders have moderate-low power with low interest and their role is mainly as the beneficiary. NGOs have moderate power with high interest; RSPO introduced certification at the jurisdictional level to Seruyan. At the moment, Bupati/Regent acknowledged this new concept to be implemented in Seruyan. By then, the district became the pilot project for jurisdictional certification in Indonesia. The critical relationship lies between Bupati/Regent (decision-maker) and NGOs (initiator) due to the five-year cycle of the regent's election. When the Bupati/Regent (decision maker) is replaced, the NGOs will start again from the beginning to introduce this concept to the new ruler. Without clear legitimation at the national level, jurisdictional certification will find obstacles to accelerating progress.

The Existing Policies that Support Jurisdictional Approach Investment in Seruyan District

The biggest challenges to implement a jurisdictional approach come from the policies and regulations to the extent of collaborative action from multi-stakeholders, which is the identity of the jurisdictional approach. At the national level, the regulation to facilitate the jurisdictional approach remains to be developed. The current legality of the jurisdictional approach refers to the Ministerial Regulation No. 70/2017 on the stipulation REDD+ as a national program to be implemented within subnational governments nationwide and the national medium-term development planning 2020 - 2024 (RPJMN), which the proposition of the

jurisdictional approach at the national level. Nevertheless, the development of jurisdictional certification initiatives in Seruyan is remarkable. The district government was supportive and committed to driving the impacts by releasing several regulations and instruments on addressing the issues related to sustainable palm oil development. Besides that, the working group for jurisdictional certification was established in 2016, and it was revamped in 2020 by developing the new standard operating procedures (SOP) to facilitate jurisdictional certification in Seruyan. Thus far, the development of regulatory instruments to facilitate the implementation of jurisdictional approaches in the Seruyan district shows a positive outlook. However, it needs to be further defined and developed in a more detailed and comprehensive manner. These are the following regulations on the provincial and municipal levels that support the development of a jurisdictional approach in Seruyan:

Table 1. The Existing Regulations that Support Sustainable Palm Oil Development in Seruyan and Central Kalimantan

Source: RSPO Impact Report 2020^{23,24}

Regulation of Central Kalimantan Province	Regulation of Seruyan District
<ol style="list-style-type: none"> Provincial Regulation No. 5/2011: The Establishment of Sustainable Palm Oil Business Provincial Regulation No. 41/2014: Management of High Conservation Value Areas in Plantation Business in Central Kalimantan Province Provincial Regulation No. 42/2014: Complaints Procedure and Data Management for Conflict in Palm Oil Estate in Central Kalimantan Province. Governor Regulation No. 43/2018: The Development of Cattle Farm through Integration of Palm Oil-Cattle to the Palm Oil Companies in Central Kalimantan Province. Governor Regulation No. 53/2020: Action Plan for Sustainable Palm Oil Estate Area in Central Kalimantan Province 2020-2025 	<ol style="list-style-type: none"> Municipal Regulation No. 3/2019: General Investment Plan of Seruyan District 2019-2025. Regent Regulation No. 36/2020: Incentive Distribution and Disincentive Imposition in Spatial Planning in Seruyan District. Regent Regulation No. 11/2021: Complaints Procedure and Data Management for Conflict in Palm Oil Estate in Seruyan District.

The Strategies to Shift the Investment into Sustainable Palm Oil Practice

As one of the sustainability projects, a jurisdictional approach can attract capital from green financing schemes such as green bonds, green Sukuk, donors, etc. The jurisdictional approach has a larger scope than project-based sustainability initiatives, which possibly can attract more capital to generate a significant impact on the ecological and societal landscape.

In Indonesia's context, to date, the possible strategy is to involve Indonesia Environment Fund (BPDLH) to create the financing window for a particular jurisdictional entity. The Indonesian Environment Fund (BPDLH) is the government agency under the Ministry of Finance of the Republic of Indonesia to facilitate multiple funding sources through a variety of financial instruments across different sectors, including forestry, energy, and mineral resources, carbon trading, environmental services, industry, transport, agriculture, marine, and fisheries. The legal basis of the agency's establishment followed:

1. Law No. 39/2009 on Environmental Protection and Management, Government Regulation No. 46/2017 on Environmental Economics Instrument.
2. Presidential Regulation No. 77/2018 on the Environmental Fund Management, and Ministerial Decree of the Minister of Finance No. 779/KMK.05/2019 on The Establishment Of The Environmental Fund Management Agency at The Ministry Of Finance as a Government Agency Which Applies The Financial Management Mechanism Of A Public Service Agency.
3. Ministerial Regulation of the Minister of Finance No. 137/PMK.01/2019 Organization And Work Procedures Environmental Fund Management Agency.
4. Ministerial Regulation of the Minister of Finance No. 182/PMK.05/2019 Minimum Service Standard of BPDLH.
5. Ministerial Regulation of the Minister of Finance No. 124/PMK.05/2020 Environmental Fund Management Procedures and Ministerial Regulation of the Minister of Finance No. 133/PMK.05/2020 Service Rates for the Environmental Fund Management Agency at the Ministry of Finance.²⁵

Encouragingly, establishing the financing window through the Indonesian Environment Fund (BPDLH) has a robust legal basis, which is advantageous to propel an investment at the jurisdictional entity. The subnational government, particularly Seruyan District, does not require to launch new regulations to facilitate new funding mechanisms, which usually must go through a serial development process. It is also related to the issue of good governance, specifically corruption when the funding is managed solely by the subnational government. Thus, BPDLH can structure the investment strategy for jurisdictional approach funds by creating a special window for a jurisdiction that can facilitate, manage, and channel investments from global, regional, even national, or local investors to a specific jurisdiction. Moreover, the Indonesian Environment Fund (BPDLH) has the capacity and authority to manage the fund and investment via three types of activities which are Fund Collection, Fund Nurturing, and Fund Mobilization²⁶. The agency is able to administer and allocate them to jurisdiction directly through a special funding window. According to figure 9, the financial sources for the financing window can be drawn from national/domestic public funds, international development partner funds, and private sectors. Thus, it indirectly provides access for the jurisdictional initiatives to funding instruments only available to, or guaranteed by the government, such as green bonds or green Sukuk (green sharia bonds).

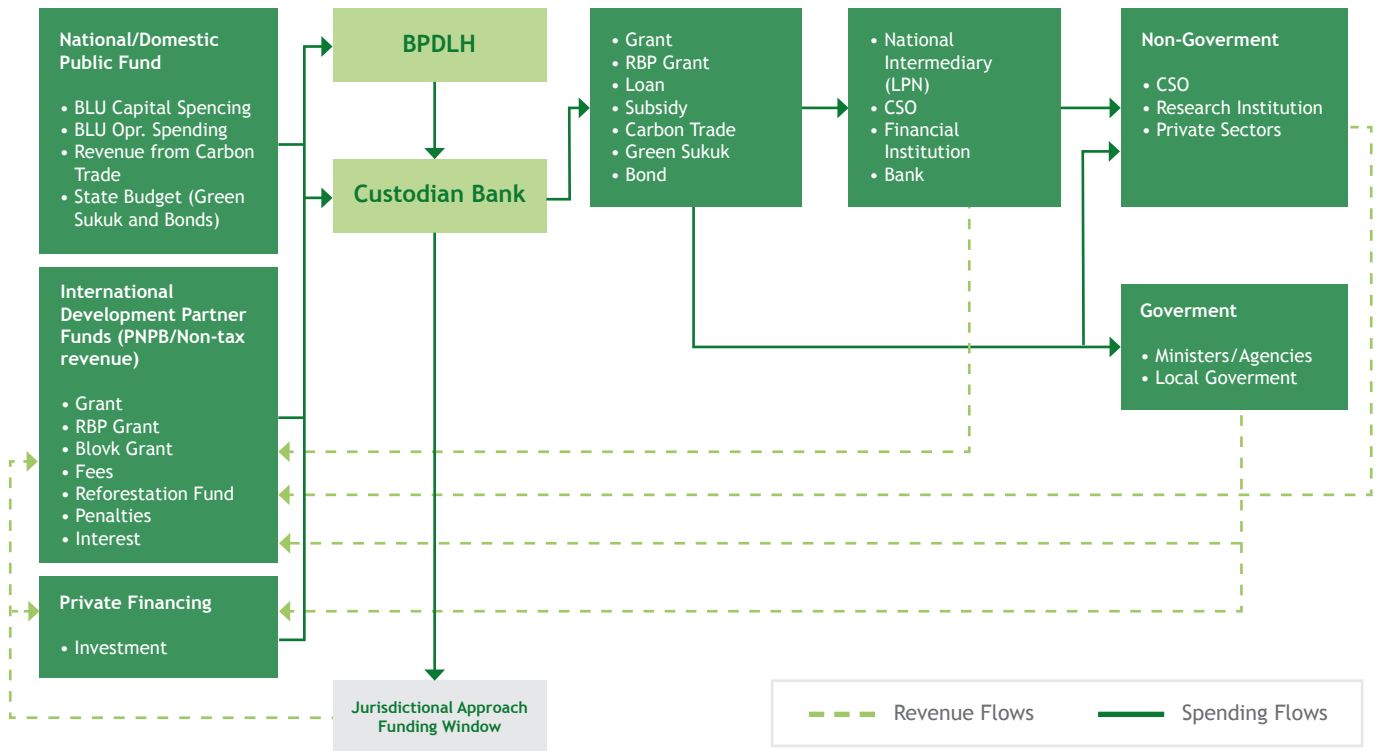
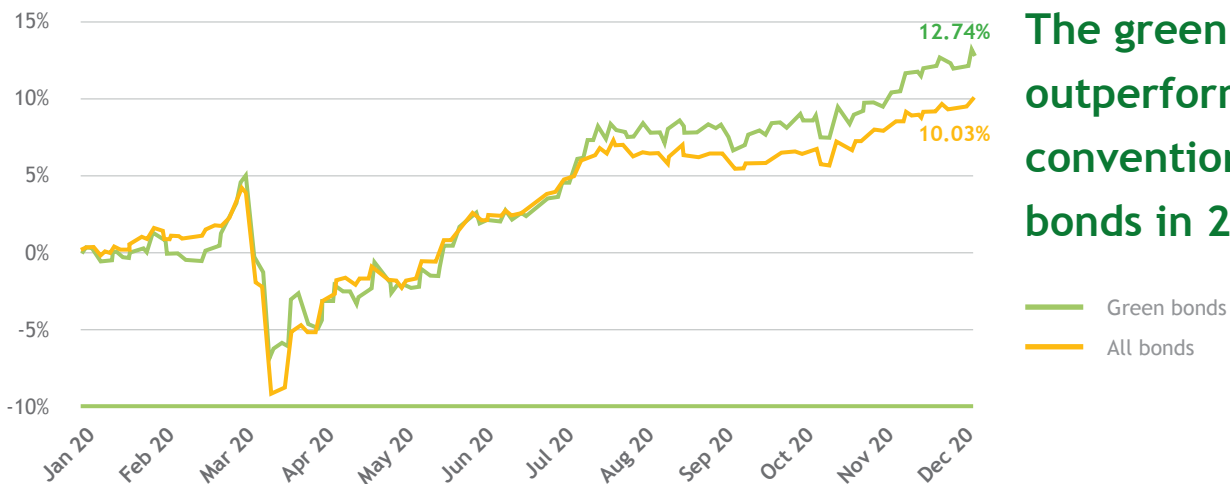


Figure 9. Financing Model for Jurisdictional Investment through Financing Window Indonesia Environment Fund

Source: BPDH (2020)

The initiative of financial innovation for funding the REDD+ project was started in the developed markets, which was introduced by the European Investment Bank (EIB) in 2007, and the World Bank launched the first green bond in 2008²⁷. The developed markets have been advanced in green financing instruments, and now they are experiencing enthusiasm growth; even the green bonds outperformed the conventional bonds²⁸. Globally, more than USD 1 tr of green bonds have been issued to fund the REDD+ related project²⁹.



The green bonds outperformed conventional bonds in 2020

Figure 10. Enthusiastic Reception of Green Bonds

Source: BloombergNEF Executive Factbook, March 2021

To date, Indonesia’s government has not developed yet a financing scheme that provides direct access to funding the jurisdictional project through capital market instruments, both sharia, and conventional schemes. However, the current development of Indonesia’s green economy is progressing to an advanced level. The Indonesian Environment Fund (BPD LH) currently develops a financing scheme for funding sustainability projects within the country. According to figure 11, the beneficiary of the fund’s proceeds and functions to manage the proceeds of the funds through the designated operation special purpose vehicles (SPVs). The operation of SPVs will ring-fence pre-selected projects located in the subnational jurisdictions (REDD+ area). For example, an Operation SPVs as a facility manager will manage fund disbursement and project implementation for projects

in Central Kalimantan. The Operation SPVs will integrate protection and restoration activities and programs, including integrated fire management, ERC restoration financing, special forestry development, and other activities.

According to Government Regulation No. 63/2019 on the government investment and Ministerial Regulation of the Minister of Finance PMK No. 53/PMK No. 05/2020 on the government investment procedures³⁰. BPD LH (BLU) has to ask permission from the Ministry of Finance for a mandate to be a government investment operator (OIP). BPD LH plans to launch the green bond using the government and private bonds scheme, which is excluded from the state budget (APBN). The underwriter from the donor is required to guarantee the green bonds and Sukuk (sharia bond).

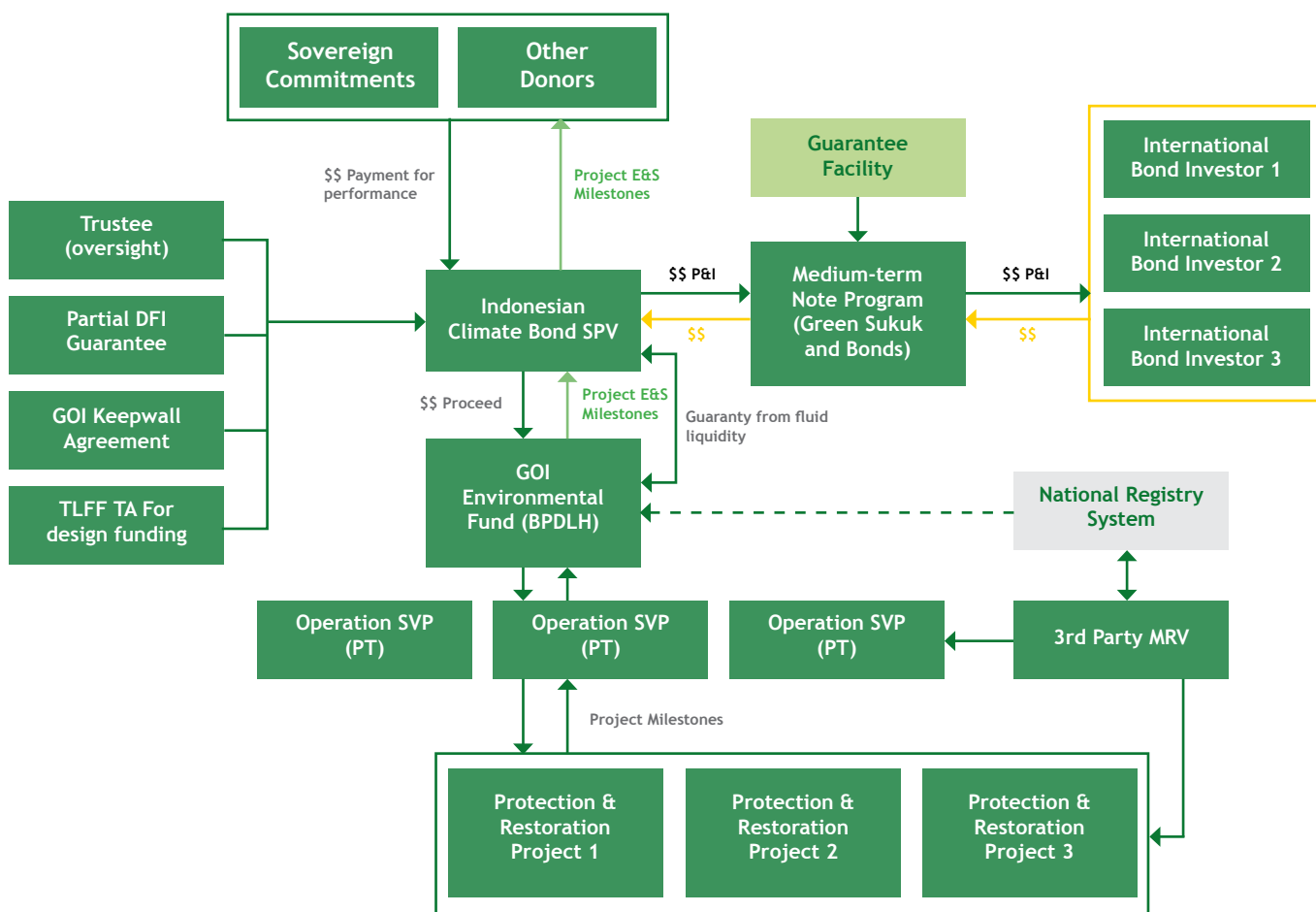
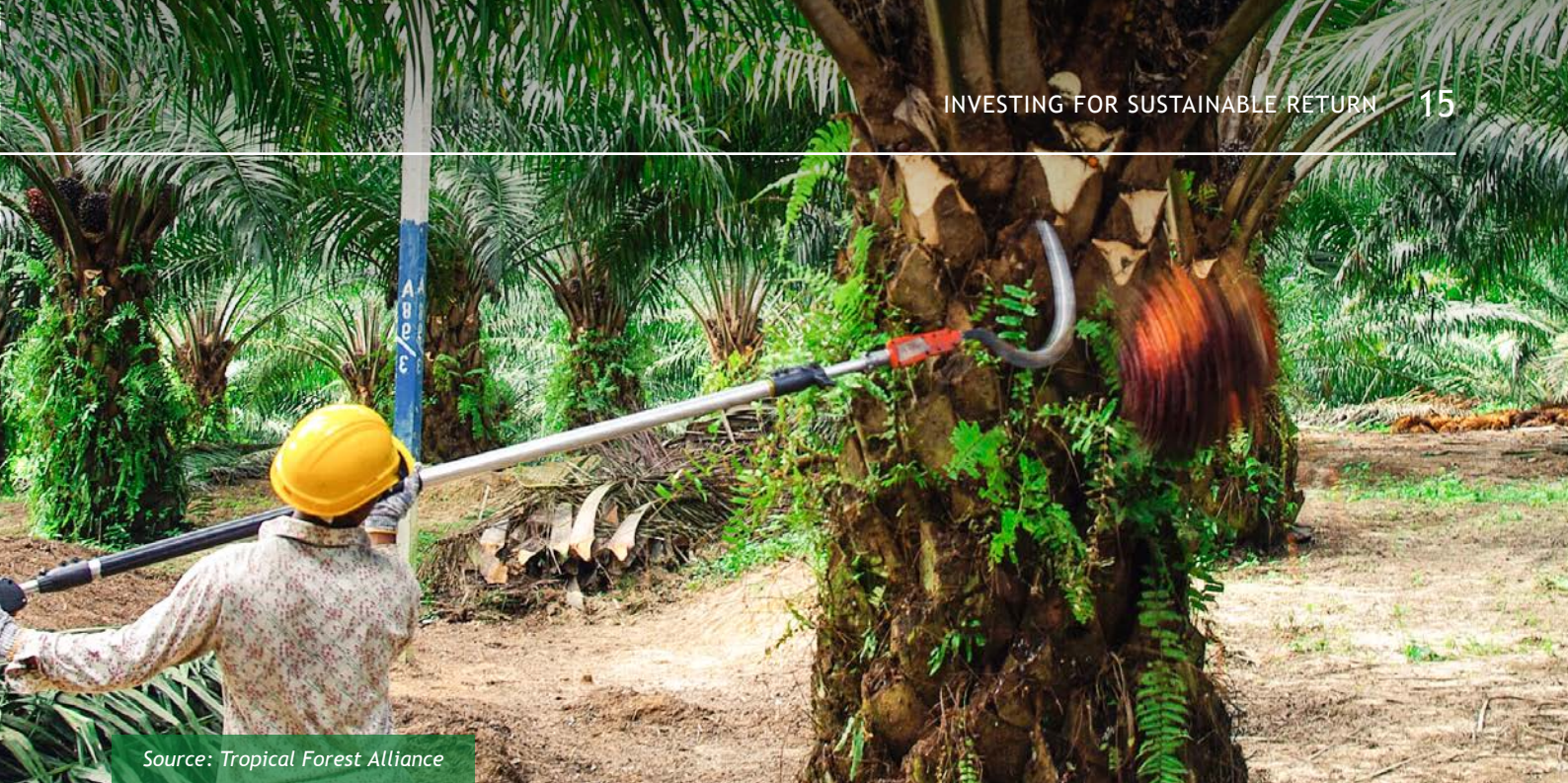


Figure 11. The Climate and Recovery Bond Structure Development

Source: BPD LH (2020)



Source: Tropical Forest Alliance

The State of Collaborative Action to Mobilize the Sustainable Palm Oil

The Jurisdictional Approach Working Group (JAWG) in Seruyan was established in 2016 and revamped in 2020. The working group aims to facilitate all the stakeholders within the palm oil supply chain in Seruyan to have a mutual understanding of the jurisdictional approach and to drive conflict resolution on the issues of land tenure.

The working group is the form of tangible action made by the government and other stakeholders to drive the mainstreaming of jurisdictional approaches in Seruyan. By far, there are more than 8,000 smallholders in Seruyan and Kotawaringin Barat that have been mapped and trained in 2020. In Seruyan District alone, two cooperatives have been certified by the RSPO which comprises 380 smallholder farmers in total. Moreover, the private sector started to see the benefit of the jurisdictional approach from the perspective of business. Unilever acknowledged that the inclusion of smallholders in the palm oil supply chain and business value chain ensures the sustainability of palm oil production. However, on the downside, its working group

has not had yet a strong presence in the civil society and a mechanism to ensure that smallholders and the civil community can participate in the forum. The conflict resolution on land tenure is also a challenge that needs to be addressed. There are 300 land conflicts in the district due to palm oil concessions being handed out without adequate consideration of local peoples' rights and livelihoods³¹. To date, only 2 of the 34 large palm oil companies in the district have fulfilled their legal obligation to provide smallholdings to local communities, which are meant to be equivalent to 20% of their estate - implying that even some RSPO members are not in compliance.

Currently, the government of Seruyan District, through the working group, is working on the conflict settlement caused by the disobedience of companies to allocate 20% of their estate, which is regulated by law through Ministerial Regulation No. 98/2007 and No 26/2007. Thus, the collaborative action to mobilize sustainable palm oil was established but needs to be reinforced. The district government needs to tighten the program enforcement over the land tenure system and land conflict resolution due to land disputes. To mobilize the jurisdictional approach in Seruyan, the collaborative action must actively involve stakeholders who are able and willing to make a specific and significant contribution.



The Economic and Environmental Return from Pursuing Jurisdictional Approach

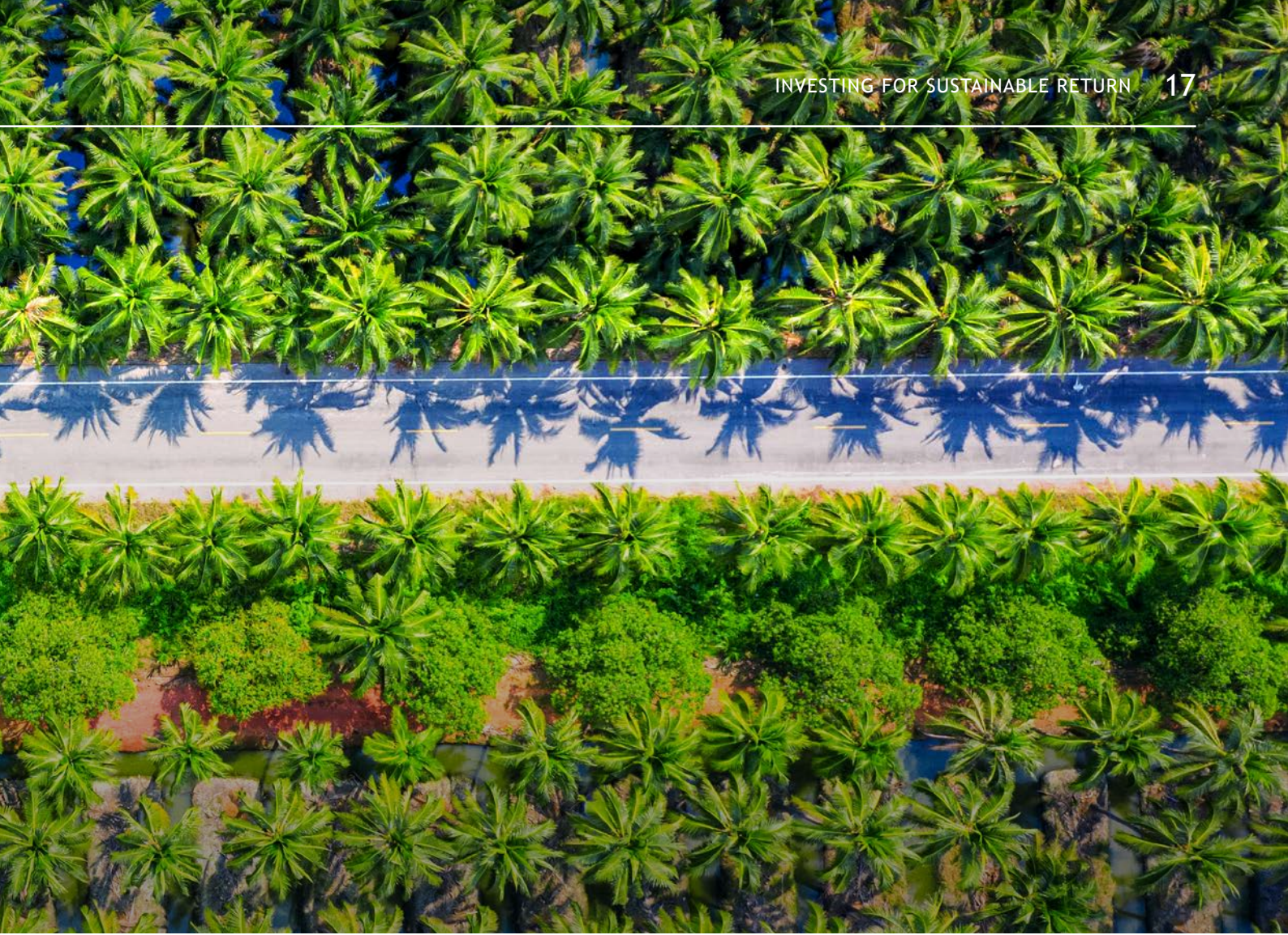
Source: Freepik.com

Economic Return

The sustainability standard will improve management practices across the board. The RSPO Procedures for New Planting (NPP) can reduce the risk of deforestation.

The study found that RSPO certification can drive 35% efficiency gain in the net CPO yield per hectare, contributing to the revenue increment by USD 45 per hectare. Every USD invested in the RSPO certification process, the gain was USD 150³². Conflict around the estate is one of the biggest challenges in implementing the jurisdictional approach in Seruyan; therefore, RSPO also promotes procedures to reduce community conflict around the estate which will reduce the cost of conflict settlement between two actors.

The jurisdictional approach is in line with the increasing productivity through capacity building and training for all the stakeholders within the jurisdictional entity, to the extent of increasing income, especially for smallholders. The settlement of governance and mechanism cooperation between cooperatives and companies through jurisdictional approach initiatives is expected to lower the budget. Aside from that, sustainable palm oil products can enter the premium market in which the price premium is applied to RSPO-certified palm oil (CSPO). The price is 2% higher than the market price. A further study in 2015 covering 34 oil palm oil growers found a CPO price premium of 7 percent³³. Subsidy can be applied to the sustainable certified smallholders, the Indonesia CPO Fund Awards can cover more than 40% of replanting cost per hectare³⁴. Moreover, the RSPO also offered the opportunity to support smallholders through the RSPO Smallholder Support Fund, which covers the cost of RSPO certification for smallholders³⁵.



Environmental Return

The jurisdictional approach is the land-based approach which aligns the subnational or national political jurisdiction with facilitating the government leadership in advancing green economic development. It means that the impact of this approach does not only benefit one party but also all the stakeholders within the jurisdiction.

There is sharing responsibility to recover the ecology and protect the environment, especially for the High Conservation Value (HCV) and High Carbon Stock (HCS) area. For example, forest fires occurred primarily because of a lack of responsibility among the smallholders, and the jurisdictional approach controls forest fires by developing the mechanism that drives responsibility-sharing. In addition, RSPO certification will help smallholders increase yields, penetrate international markets (possible to connect certain jurisdictions with specific markets), improve their livelihoods, and reduce the risk of land conversion. Certification is a symbol of credibility and proof of sustainable practice in operations. The more smallholders included, the more tangible impacts will be seen in creating a sustainable palm oil ecosystem. When a jurisdiction can create smallholder mapping and Go and No Go Areas, it shows a good sign that that government has a tangible commitment to supporting jurisdictional certification initiatives. Indeed, it hopes to increase the investors' trust to invest in a jurisdiction.

Recommendation

The Seruyan local government, as the pivotal actor, should emphasize the importance of managing vertical and horizontal stakeholders through several actions.

1. Amplify the awareness of land registration and legality among the smallholders and inhabitants in the Seruyan District to reduce conflict and reinforce the head district regulations (Perbub) on conflict resolution and regularize company-community relations.
2. Advocating and engaging the jurisdictional approach to the smallholders through a jurisdictional approach working group to drive the smallholder certification by providing them with training and coaching on the sustainable palm oil plantation.
3. Drive the smallholder mapping and spatial planning (Go and No Go Area) that follows new standards (HCV and HCS) to gain trust and reputational benefit from the public to drive the investment at the jurisdictional level.
4. Establishing the engagement between state actors in Seruyan District and the capable government bodies at the national level, such as the Indonesian Environment Fund, to structure the financing strategy to drive investment in the jurisdictional initiatives.
5. Establishing the legality framework for the basis of the jurisdictional approach in the Seruyan District through municipal regulation can ensure the continuity of its initiatives even when there is a changing ruler of the district.



Source: Shutterstock

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Tropical Forest Alliance

TFA is a global multistakeholder partnership platform initiated to support the implementation of private-sector commitments as well as to amplify demand-side engagement in major economies towards the transition to reduced deforestation commodity supply chains. Hosted by the World Economic Forum, TFA partners with 170+ organizations - companies, government entities, civil society, indigenous peoples, local communities and international agencies. TFA operates regional platforms in Latin America, West and Central Africa, China, and Southeast Asia.

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The School of Business and Management (SBM) Institut Teknologi Bandung (ITB) was established on December 31, 2003. SBM ITB is located at the Main Campus of Institut Teknologi Bandung (ITB), the best science and technology institute in Indonesia. SBM ITB has a role as the hub and orchestrator to develop and grow technopreneurs in Indonesia. In 2018 SBM ITB gained an international accreditation, ABEST, and in 2021 SBM ITB has become among the limited AACSB accredited schools.

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It is our hope that this study could inspire scaled sustainability commitment and further collective actions across all stakeholders in our journey towards deforestation-free commodities supply chain, other forest-positive shared agendas, and eventually our pursuit towards net zero.

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