

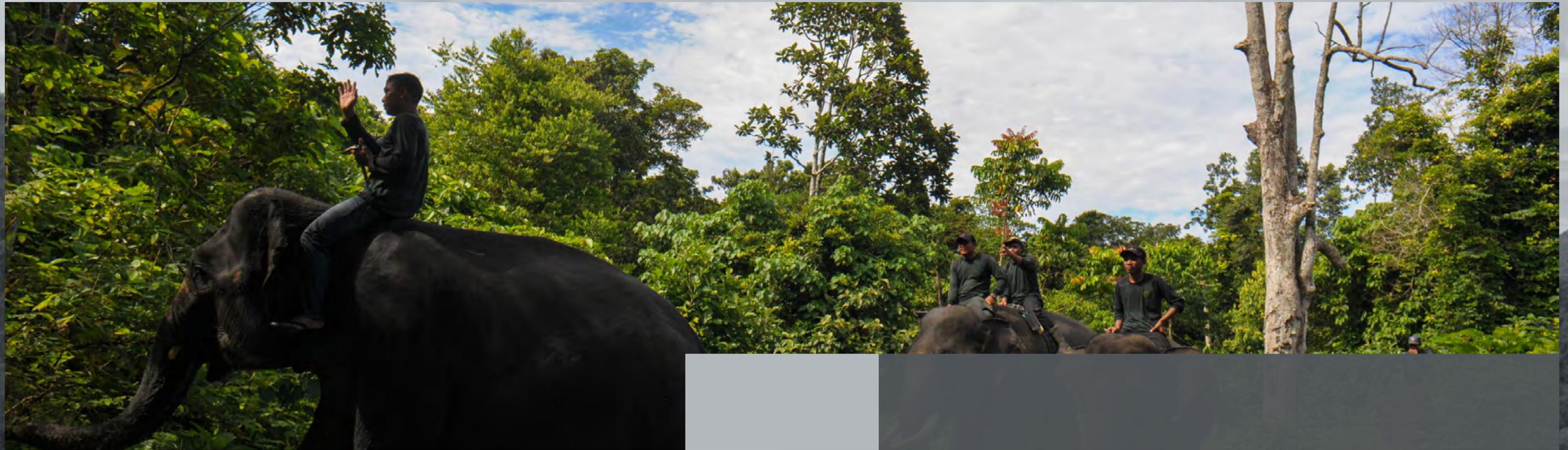
PROJECTS IN THE ACEH LANDSCAPE



2019/20

PROGRESS UPDATE

Last updated: Sept 2019



Why Does Aceh Matter to Musim Mas?

Located at the northern end of Sumatra, Aceh is home to 5 million Indonesians from over 10 ethnic groups. Home to Aceh is the Leuser Ecosystem, an ecological hotspot known for its biological diversity.

Aceh is an important sourcing area to Musim Mas. To maintain long-term prosperity, we need to ensure that our [No Deforestation, No Peat, No Exploitation \(NDPE\) policy](#) is enforced, especially in the districts bordering the Leuser Ecosystem.

Research by Aidenvironment highlighted the projected growth in independent smallholders in Aceh due to internal migration in Indonesia. (See [Annex B](#) for Aidenvironment's research.) This presents an opportunity for Musim Mas to engage independent smallholders at the beginning of their careers so that producing sustainable oil palm becomes the norm.

The unique history and demographics of Aceh guides the engagement approaches that Musim Mas and other stakeholders adopt, given Aceh's recent peace agreement with the Indonesian government in 2005, and a tsunami disaster in 2004.

Protecting the Leuser Ecosystem

Since 2014, several NGOs have published reports of land clearing and NDPE breaches. NGOs such as Rainforest Action Network (RAN) highlighted that some companies were allegedly clearing forests without possessing legal permits for the development of oil palm plantations.

As a company who strives to take the lead in sustainability, Musim Mas works to ensure that our NDPE policy is implemented. Leveraging on our business relationships as a bridge for engagement, we identified and prioritized districts where our third-party suppliers are located: Aceh Timur, Aceh Tamiang and Aceh Singkil (See [Figure 3](#)).





Our Solution: Empowering Third-party Suppliers and Independent Smallholders

A. Our approach

Focusing on the three priority areas: Timur, Tamiang and Singkil, we engage our third-party suppliers as we investigate the claims outlined in the reports. We then extend our [independent smallholder programme](#) traditionally for our mills to third-party supplier mills under our Extension Services Programme (ESP). This is because we realized that while they might be interested in sustainability, they might not have the capacity, resources or know-how to engage independent smallholders whom they source from. ([Annex A](#) outlines why independent smallholders are key movers in promoting sustainable oil palm production in Indonesia.)

B. Extension Services Programme (ESP) for third-party suppliers

ESP¹ aims to integrate independent smallholders into sustainable palm oil supply chains by:

1. Increasing market access,
2. Sharing good agricultural practices to increase yield,
3. Supporting replanting efforts and
4. Confirming legality of smallholders' land titles.

Figure 1 below elaborates on the four focus areas of our smallholder programme.

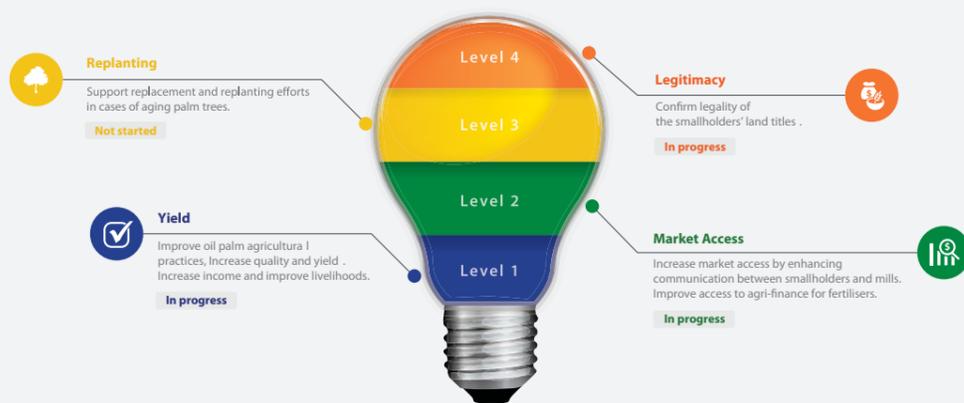


Figure 1: Focus Areas of Musim Mas' Smallholder Programme

C. Smallholder Hub

As we scale up our smallholder programme from our own mills to third-party suppliers' mills, we recognize that a coordinated effort based on geographical area or district level is paramount (Refer to Figure 2 below).

The Smallholder Hub is a platform where palm oil companies share their expertise and resources to train independent smallholders, regardless of whom they sell to, within a specific district (Phase 3 in Figure 2). We are in talks with NGOs to discuss how the Smallholder Hub can be integrated into their existing

multi-stakeholder programmes, which involves the government and the private sector on a district level.

Ultimately, we acknowledge the limitations of what one single company can do to address NDPE concerns. We are wary of the delicate balance between economic prosperity, developing the community and conserving the environment. Therefore, to make the Smallholder Hub a reality, we are working with stakeholders with common goals, such as the provincial government, government departments, buyers, NGOs and CSOs, growers, mills, consultants and smallholders.

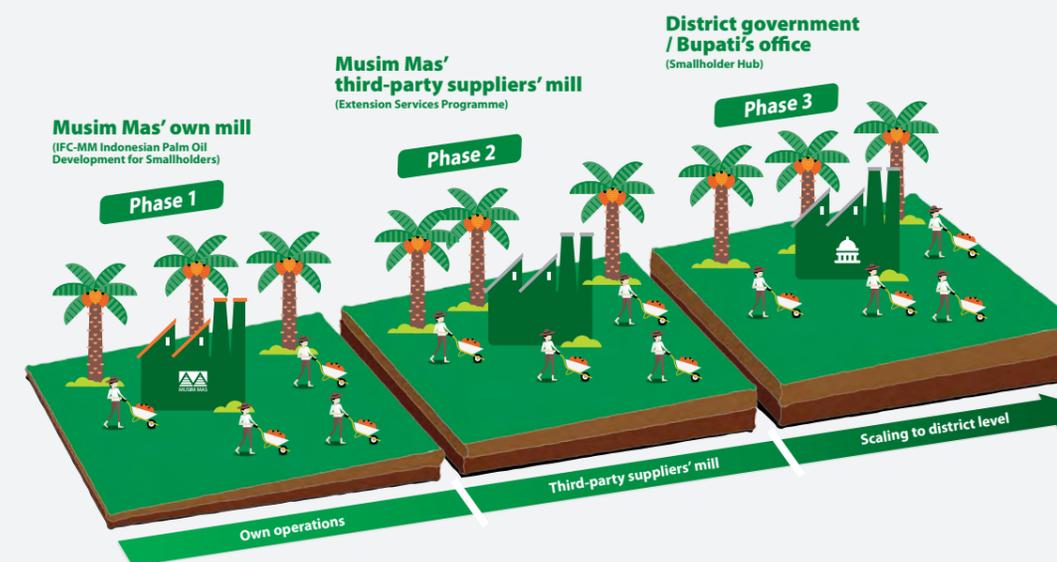
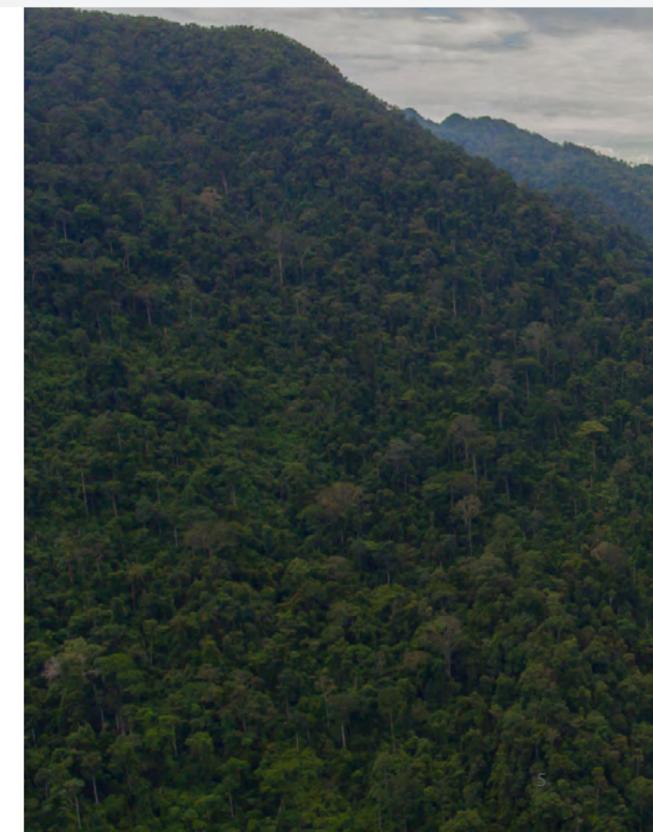


Figure 2: Smallholder Hub - Scaling Up Smallholder Programmes to the District Level

Progress

Since 2014, we have been engaging our third-party suppliers identified in the reports. We work closely with multiple stakeholders such as growers, mills, buyers, regent of Aceh, government bodies, NGOs and consultants through our participation in [Conservation International's Coalition for Sustainable Livelihoods](#) and [Earthworm Foundation's Indonesian Landscape Initiative \(APT\)](#).

Mill assessments were conducted on five mills across Aceh Tamiang, Timur and Singkil.

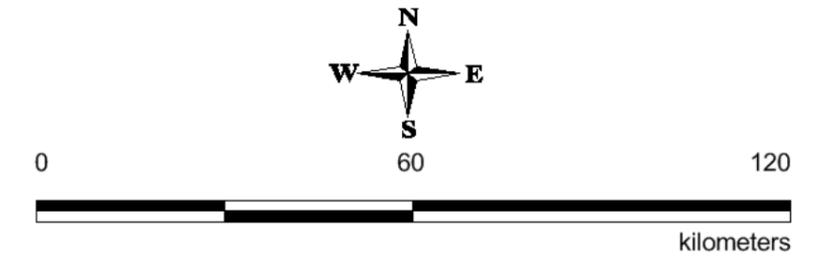


¹ An elaboration of ESP and our smallholder programme can be found here: <http://www.musimmas.com/sustainability/smallholders>

Figure 3: Musim Mas' Supplier Map in Aceh



MILL SUPPLIER IN ACEH PROVINCE

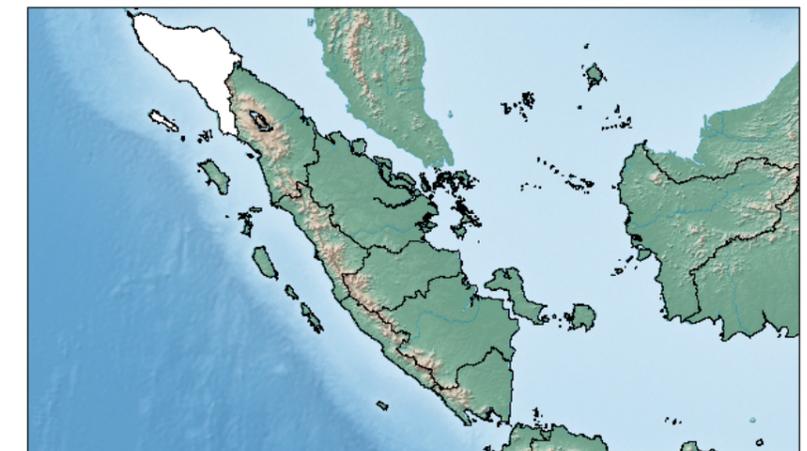


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Legend

-  Mill Supplier in Aceh
-  Supplier Engaged
-  Taman Nasional Gunung Leuser (TNGL)
-  Kawasan Ekosistem Leuser (KEL)
-  District Boundaries

Location



Source

1. TNGL dan KEL, SK No 103/ MenLHK- II/ 2015
2. District Boundaries, BPS 2010

The table below describes our work for each landscape.

District in Aceh	Timur	Tamiang	Singkil
Research conducted	<ul style="list-style-type: none"> Active monitoring of encroachment issues via Aidenvironment. Conducted desktop analysis of high-risk areas. 	<ul style="list-style-type: none"> Desktop survey of oil palm plantings conducted to identify high-risk areas. As we work with APT, we also have access to satellite monitoring, a platform to engage the government, mills and plantations, and the development of participatory land use plans. 	<ul style="list-style-type: none"> Mapping of independent smallholders and identifying high-risk areas. Engaged Aidenvironment to conduct a scoping report. Analyzing opportunities to implement a multi-stakeholder project.
Progress to date (May 2019)	<ul style="list-style-type: none"> Supported PT Ensem Sawita to achieve 100% traceability to plantation (TTP). We are also supporting them with the maintenance and updating of the data. <p>More on our engagement with PT Ensem Sawita here.</p> <ul style="list-style-type: none"> Since 2015, we have been actively engaging PT Mopoli Raya on improving their sustainability policy. In March 2019, we saw the strong commitment by PT Mopoli Raya towards sustainability through relevant documents shared with us. <p>In April 2019, we continued the business relationship with PT Mopoli Raya due to their commitment to sustainability.</p> <p>More on our engagement with PT Mopoli Raya here.</p> <ul style="list-style-type: none"> Talks are underway with other companies in the kabupaten (regency) to establish an ESP. Designing an implementation plan to limit forest encroachment. 	<ul style="list-style-type: none"> Since 2018, we have conducted our ESP with PT Pati Sari and engaged over 124 independent smallholders. <p>More on our engagement with PT Pati Sari here.</p> <ul style="list-style-type: none"> Collaborating with IDH, growers and other partners to develop a Verified Sourcing Area (VSA) in Tamiang. We would be sharing our expertise with engaging third-party suppliers and independent smallholders. 	<ul style="list-style-type: none"> Working closely with Aidenvironment, the Indonesian National Land Office (BPN), Plantation Agency (Dinas Perkebunan) and Provincial Agency (Dinas Provinsi) to support Singkil's Land Legalisation Programme Built relationships with Sub-district government and Village heads. This is essential to gain entry into villages to engage their communities of independent smallholders. Engaged PT Ensem Lestari to discuss their participation in our ESP. <p>More on our engagement with third-party suppliers in Singkil here.</p> <ul style="list-style-type: none"> Talks are underway with other companies in the kabupaten (regency) to establish an ESP. We have achieved 53% traceability for nine supplier mills (see Figure 3 for our supplier map), including independent smallholders. We are using our risk-calibrated traceability method, which allows us to focus resources on high-risk areas.
Plans in the pipeline	<ul style="list-style-type: none"> Expanding the VSA across Tamiang and Timur with IDH, PT Mopoli Raya and other buyers and growers. 	<ul style="list-style-type: none"> Establishing a Smallholder Hub within IDH's Centre of Excellence, a multi-government body and multi-stakeholder coalition. 	<ul style="list-style-type: none"> Collaborating with partners and third-party suppliers for a landscape project. Continue engaging PT Ensem Lestari and other companies to participate in our ESP. Localising our ESP curriculum for Singkil, which includes exploring crop diversification or alternative livelihoods. Using our risk-calibrated traceability method, we project full traceability of our nine supplier mills by the end of 2020.

Table 1: Musim Mas' landscape work in Aceh

Learning and Action Plan

To realize our vision of a Smallholder Hub at the district-level, we identified key actors and advocates whose involvement would accelerate or scale up our ESP in districts Aceh Tamiang, Timur and Singkil. We will be reaching out to more of these key actors directly or indirectly through advocates from our stakeholder analysis.

We will continue to fine-tune our ESP implementation through regular evaluation and monitoring. This includes integrating components on educating and training supplier plantation companies and smallholders on NDPE, good agricultural practices (GAP) and social issues in the three priority districts.

We learnt that the success of ESP largely lies in considering the drivers and barriers to smallholders' behavioural change. Insights from our groundwork lay the basis to developing a robust district-level plan that is smallholder-centric. We close the feedback loop with our field colleagues as they share insights on drivers and barriers smallholders face. For

instance, collaborating with partners to develop alternative income sources as smallholders experience decreased income during replanting periods, making it a challenge to adopt GAP or comply to our NDPE policy if it is more costly. Several researchers have also pointed out the heterogeneity in smallholder profiles², which helped shape our engagement approach.

As described in Table 1, Musim Mas will explore more multi-stakeholder projects and share our experience in engaging smallholders and third-party suppliers.



² Jelsma, I., Schoneveld, G.C., Zoomers, A., Westen, A.C.M. (2017). Unpacking Indonesia's independent oil palm smallholders: An actor-disaggregated approach to identifying environmental and social performance challenge. Available at: <https://www.sciencedirect.com/science/article/pii/S0264837717304751>; Schoneveld, G., Ekowati, D., Andrianto, A. and van der Haar, S. (2019). Modeling peat- and forestland conversion by oil palm smallholders in Indonesian Borneo. Environmental Research Letters, [online] 14(1), p.014006. Available at: <https://iopscience.iop.org/article/10.1088/1748-9326/aaf044>.

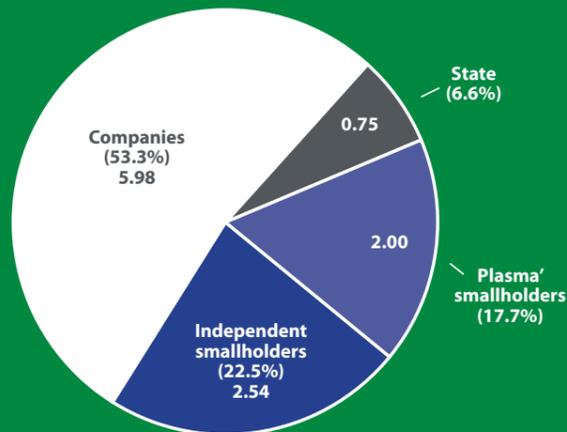


Why Are Independent Smallholders Key to Sustainable Palm Oil?

1. Smallholders set to manage 60% of oil palm plantations in 2030

As of 2015, smallholders in Indonesia hold approximately 40% of oil palm plantations. Independent smallholders at 22.5% (2.54 million ha) and plasma smallholders at 17.7% (2 million ha).

Proportions of oil palm plantations in Indonesia (in million hectares)



2015 statistics
Source: Agriculture Ministry

The Palm Oil Agribusiness Strategic Policy Initiative (PASPI) projects that smallholders are set to manage 60 percent of Indonesia's oil palm plantations by 2030. This means that smallholders are a substantial group that must be included in the journey to make sustainable palm oil the norm.

2. Smallholders depend on the forests and environment for their livelihood

Forests contribute to local livelihoods and socioeconomic development for the community. Because of that, it is essential to include the livelihood interests of smallholders when developing and implementing projects on environmental conservation and prevention of deforestation.

In fact, studies have shown that converting forest into palm oil

plantations is highly profitable, and neglecting that can undermine conservation projects, such as the UN REDD's (Reducing Emissions from Deforestation and Degradation) scheme of carbon credits³.

3. Access to fewer resources to produce sustainably

Studies have uncovered independent smallholders' lack of access to knowledge of good agricultural practices (GAP) and the technical expertise to improve productivity and yield per hectare.

Access to finance and loans plays a critical role in a smallholder's journey to producing sustainably as they replant oil palm every 20 to 25 years to maintain its productivity. During that process, smallholders require financial and market access to high-quality seedlings, sustainable means to clear their existing plantation for replanting, and another source of income during the first 3 years before the replanted oil palm bears fruit. Most banks are adverse to financing smallholders due to the high risk of default and that smallholders traditionally do not keep financial records.

However, Musim Mas, together with BNI bank and the Indonesian government, have recently increased financial access to independent smallholders around its mill, PT SRR, in Rantau Prapat, North Sumatra. We aim to replicate such a collaboration in districts where we have a smallholder-programme presence.

Our smallholder programme and ESP focuses on bridging the gaps in access to education and implementation of GAP, market, and financial services.

4. Leakage market encourages status quo

Due to the nature of the supply chain and free market, independent smallholders are usually shielded from global pressure to produce oil palm sustainably, unlike large, global palm oil corporations.

While large corporations can translate the global pressure to smallholders, without a robust engagement plan and support, independent smallholders can choose to sell it to other buyers who do not prioritize sustainability.

Known as the leakage market, sales of less sustainable oil palm are rerouted to less selective markets. Selective tariffs or policies to exclude growers and producers of less sustainable palm oil will only feed the leakage market⁵.

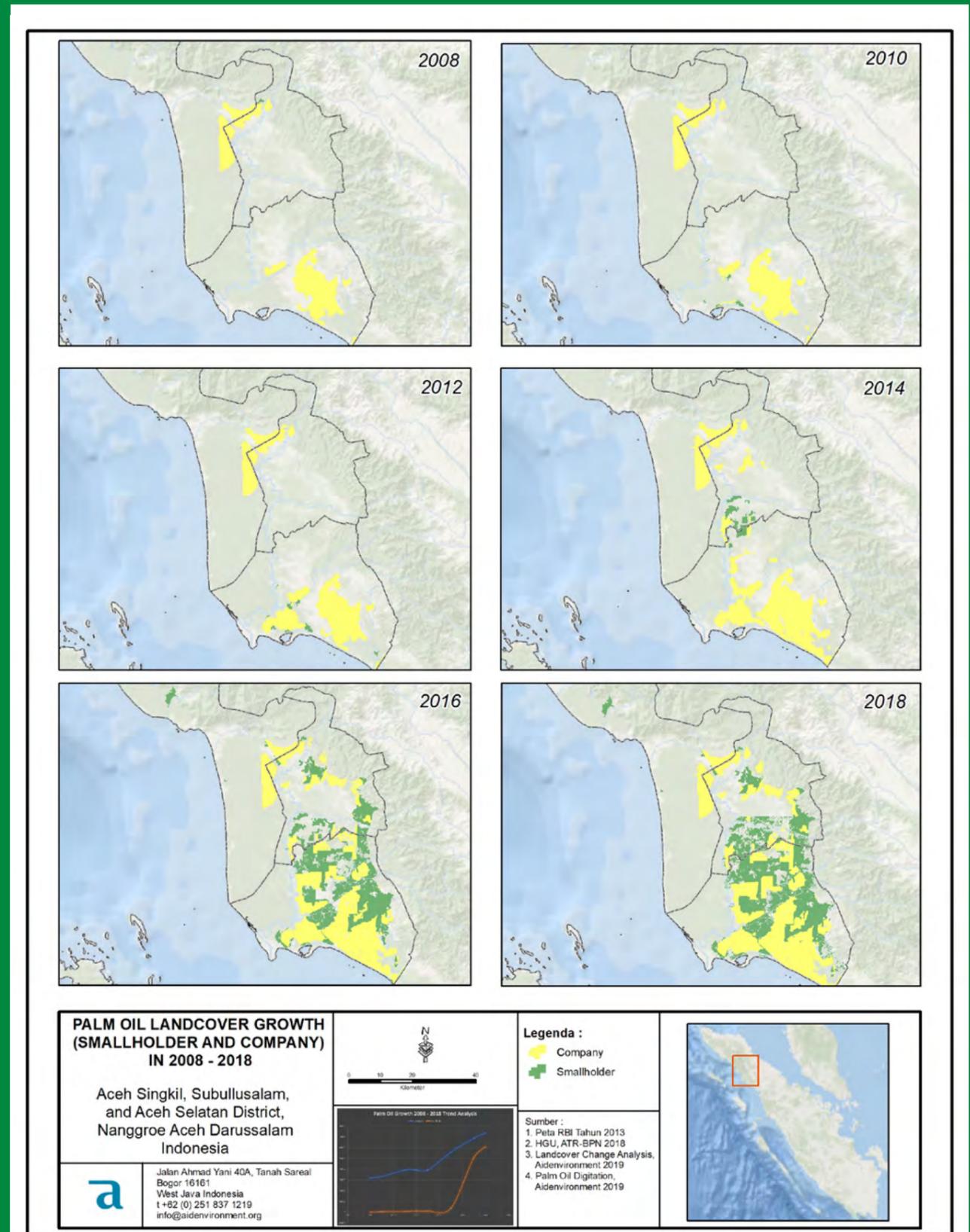
³ Butler, R. A., Koh, L. P., & Ghazoul, J. (2009). REDD in the red: Palm oil could undermine carbon payment schemes. *Conservation Letters*, 2, 67–73. Available at: <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1755-263X.2009.00047.x>

⁴ Aidenvironment (2013). Diagnostic Study on Indonesian Oil Palm Smallholders. Available at: <http://www.aidenvironment.org/project/diagnostic-study-indonesian-oil-palm-smallholders-2013/>

⁵ Wilman, E.A. (2019). Market Redirection Leakage in the Palm Oil Market. Available at: <https://www.sciencedirect.com/science/article/pii/S0921800918310115>



Research by Aidenvironment on palm oil land cover growth in Aceh, between 2008 to 2018.





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