



**UNDERSTANDING THE POLICIES AND PROBLEMS OF  
THE OIL PALM PLANTATION  
PLASMA SCHEMES 1986 - 2022**

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*Practical Guide Series*

**Understanding The Policies And Problems of  
The Oil Palm Plantation Plasma Schemes:  
1986-2022**



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## CONTENTS

|   |    |
|---|----|
| 1. Preface.....   | 1  |
| 2. Oil Palm Plantation Plasma Schemes in Indonesia.....                 | 4  |
| 3. Nucleus Estate and Smallholder Schemes in Indonesia.....             | 5  |
| a. PIR (Nucleus Estate and Smallholder) Scheme.....                     | 7  |
| b. What is a Plasma Estate?.....  | 8  |
| c. Plantation Business Partnership Schemes.....                         | 9  |
| 4. Analysis of Plasma Regulations and Their Application in Cases.....   | 11 |
| a. PIR-Trans (NES-Transmigrant) Scheme.....                             | 11 |
| b. PIR-Bun (NES-Plantation) Scheme.....                                 | 14 |
| c. PIR-KKPA (NES-Primary Cooperative’s Loan for Members)<br>Scheme..... | 15 |
| d. Partnership-Cooperative Scheme.....                                  | 19 |
| e. Partnership Scheme in Regional Regulations.....                      | 30 |
| f. Comparison of Partnership Schemes.....                               | 31 |
| 5. Appendices   |    |



## 1. Preface

Oil palm started to be developed on a large scale in Indonesia in the 1970-80s. Since then, the oil palm plantation business has spread from the island of Sumatra, to the islands of Kalimantan, Sulawesi, Maluku-North Maluku, up to the island of Papua.

Being one of the top plantation crop commodities promoted by the New Order Regime, oil palm has seen rapid progress in terms of the extent of plantations and businesses. By 2022, the official data show that oil palm plantations covered more than 15 million hectares across the country.<sup>1</sup> Those managed by farmers (called people's/smallholder's plantations) stood at 6.37 million hectares; those by state-owned enterprises (BUMN/BUMD) at 598,781 hectares; and those by private companies at 8.4 million hectares.<sup>2</sup>

The statistical figures above are the official data recorded by the Directorate General of Plantations. As with most statistical data, however, there are always "dark numbers" that are not identified in official data. NGO Sawit Watch states that the total area of oil palm plantations nationally is twice the official data, amounting to 22.2 million hectares.<sup>3</sup> What we can tell from the difference in these official and unofficial data is that plantation areas are much larger because those established in forest, protected and conservation areas cannot by any means be registered as plantation areas.<sup>4</sup>

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<sup>1</sup> National Top Plantation Statistics 2020-2022, Directorate General of Plantation of the Indonesian Ministry of Agriculture, p. 83.

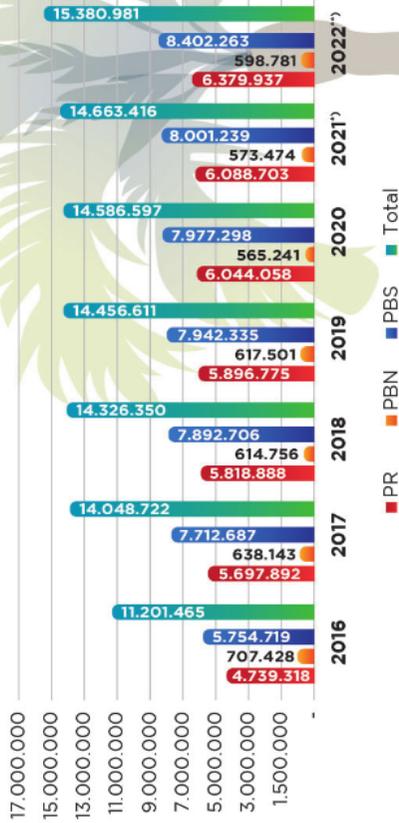
<sup>2</sup> Op.cit p. 71.

<sup>3</sup> See further <https://data.alinea.id/luas-areal-perkebunan-sawit-b2cAy9Bd9c>

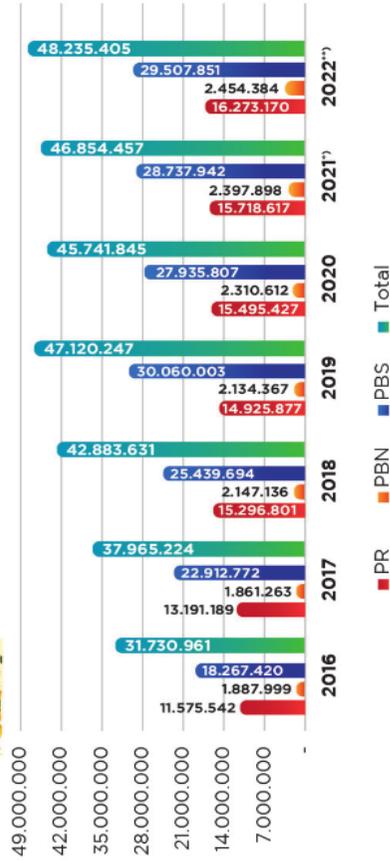
<sup>4</sup> As regulated in Law #39/2014 on Plantation and Law #41/1999 on Forestry, plantations must not be set up in forest areas, protected forests and conservation areas.



### SIZE (ha)



### PRODUCTION (m. ton)



### PRODUCTIVITY (Kg/ha)



PR = Smallholder's plantation, PBN = Large State-Owned Plantation, PBS = Large Privately-Owned Plantation

Source: Statistik Perkebunan Unggulan Nasional 2020-2022

As more land is contested for further development, land conflicts have been prevalent. Conflicts have been arising and have escalated since the reform era, which has opened up public space to express demands.

Conflicts over plantation lands are triggered by various factors, one of which is the right to plasma estates. The plasma program was launched in late 1970s, followed by the development of the *Perkebunan Inti Rakyat* (PIR) scheme (i.e. nucleus estate and smallholder/NES). To date, there have been 9 (nine) plasma schemes developed in Indonesia.

The first legal regulations regarding plasma are known to be through Presidential Instruction Number 1 of 1986 on Plantation Development Using the PIR-TRANS (NES-Transmigration) Program. It was the first official regulation to regulate plasma schemes. Then, legal regulations regarding plasma are revolving over time. This research examines legal regulations regarding plasma made from 1986 to 2022.

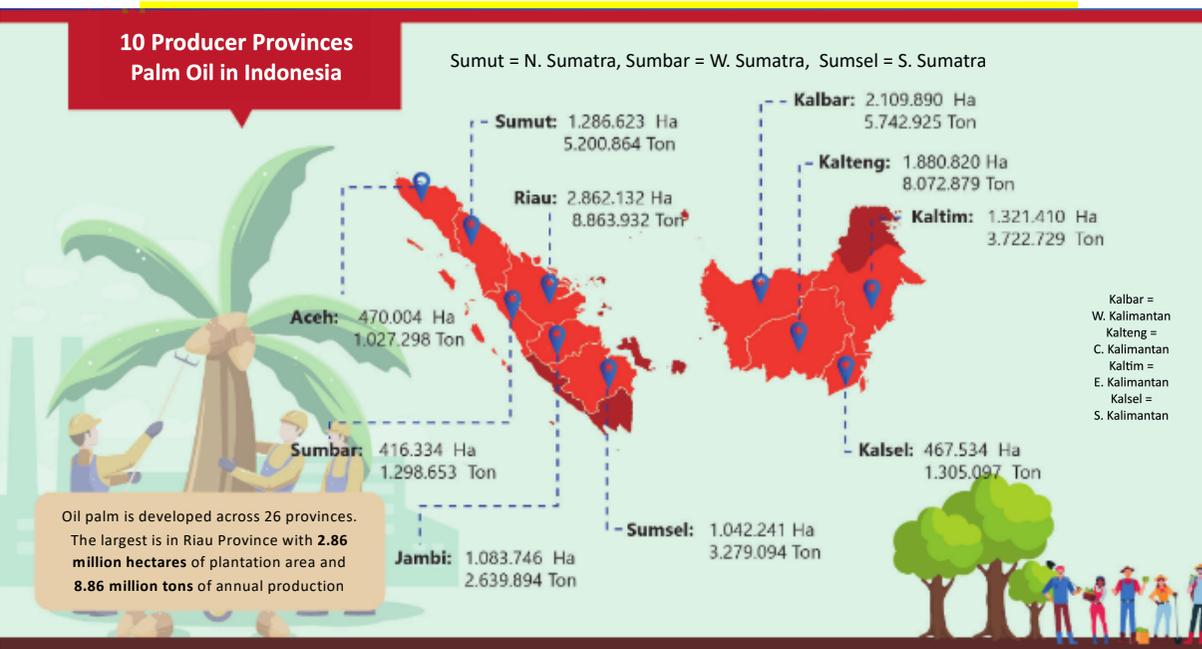
This study describes the evolution of legal regulations regarding plasma, and complements it with analyses of their implementation and the associated dispute cases emerging from it.

When analysing plasma dispute cases in Indonesia, one should note that the Indonesian legal system adheres to the continental European law, one of whose key principles is the principle of legality. Therefore, this study uses the regulations in force when such cases occurred. This is in line with the non-retroactive principle, which means that the application of law does not apply to events that took place before the law was introduced.

This study explicates plasma regulations in the order they were introduced and came into force. Then, one or more examples of plasma conflict cases arising as a result of the implementation are given. The cases presented are taken based on findings obtained from various sources.

## 2. Oil Palm Plantation Plasma Schemes in Indonesia

To date, no official data has been open to the public regarding the real extent of oil palm plasma plantations throughout Indonesia. The Directorate General of Plantations did release data on plasma plantations, but without further explanation about their status: the data did not distinguish between independent estates and plasma estates. Plasma status is related to oil palm estates developed by nucleus companies under various partnership schemes, for example the PIR, the KKPA, and the Partnership Scheme and Revitalization. Therefore, we can infer that the 10 provinces with the largest oil palm areas shown in the figure below have the largest plasma areas as well.



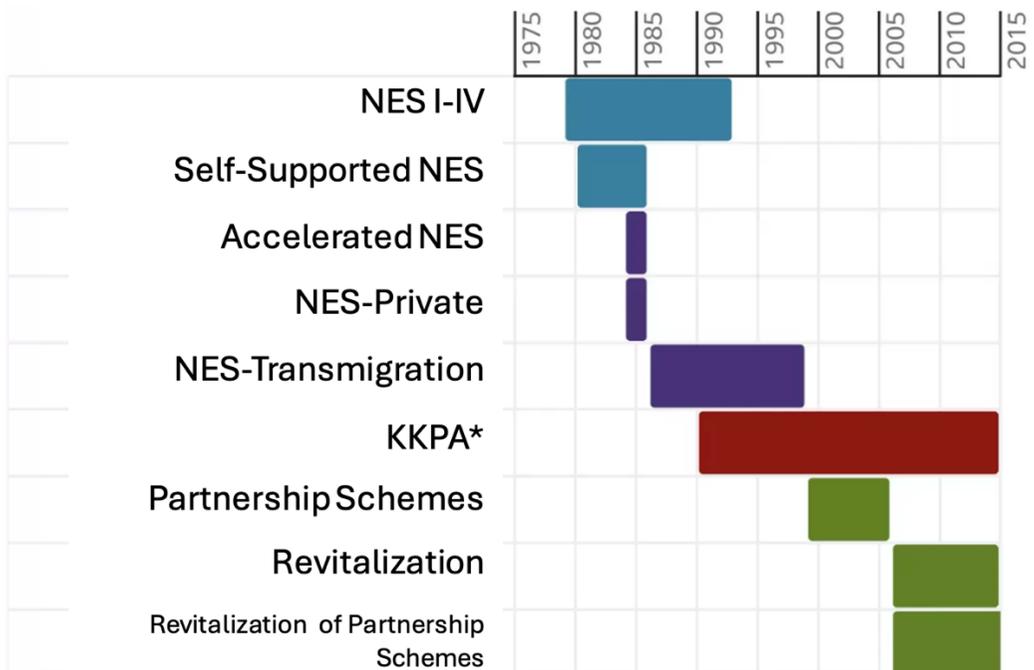
Source: Statistik Perkebunan Unggulan Nasional 2020-2022, Dirjen Perkebunan Kementan RI

### 3. Nucleus Estate and Smallholder Schemes in Indonesia

The plasma schemes in Indonesia evolve over time. Based on the practices used since the 1970s, there have been at least 9 schemes to date, namely: 1) *PIR* or NES (whose initial development was supported by the World Bank); 2) *PIR Swadana* (self-supported NES); 3) *PIR Akselerasi* (Accelerated NES); 4) *PIR Swasta Kelapa Sawit* (NES-Private); 5) *PIR-Trans* (NES integrated with the transmigration program); 6) *KKPA* (Primary Cooperative's Loan for Members - plasma using cooperative's loans); 7) *Pola Kemitraan* (Partnership Scheme); 8) *Revitalisasi* (Revitalization); and 9) *Revitalisasi Pola Kemitraan* (Revitalization of Partnership Schemes).

#### Nucleus-Plasma Schemes

■ Government-sponsored   
 ■ Role of private companies increasing   
 ■ Decentralization  
■ Partnership models with private companies



\* KKPA = NES-Primary Cooperative's Loan for

Source: IFC, Diagnostic Study on Indonesian Oil Palm Smallholders 2013, BBC

The next section explains the evolution of oil palm plantation business partnership schemes over time along with the regulations that regulate them.

For comparison, the various nucleus-plasma schemes differ in 3 aspects of their application.

| <b>Nucleus-Plasma Scheme</b>                  | <b>Financing</b>  | <b>Estate Management</b>  | <b>Profit-Sharing and Loans</b>  |
|---|---|---|--|
| NES   | Loans from the World Bank, the Asian Development Bank and the German Development Bank | Farmers   | 70% goes to farmers, 30% for loan repayment  |
| PIR-Trans (NES-Transmigration)                | State's Revenues and Expenditures, through Investment Credit                          | Farmers   | 70% goes to farmers, 30% for loan repayment  |
| KKPA (Primary Cooperative's Loan for Members) | State's Revenues and Expenditures, through Investment Credit                          | Plasma farmers or Plasma Cooperative  | 30% goes to farmers, 70% goes to the Cooperative for estate management and instalments |
| Revitalization of Plantation                  | Loans from national banks   | Nucleus companies manage the plasma estates during the development and post-harvest periods | <20% goes to farmers, >80% for estate operation and management, and instalments        |

Source: Privatisasi Transmigrasi dan Kemitraan Plasma Menopang Industri Sawit (2017)

### a. PIR (Nucleus Estate and Smallholder) Scheme

The term *Perkebunan Inti-Rakyat*, shortened to PIR, adopts the foreign term ‘nucleus estate and smallholder’.<sup>5</sup> In various literature the term ‘inti-rakyat’ (nucleus-smallholder) is also often referred to as ‘Inti-Plasma’ (Nucleus-Plasma). The original term ‘inti-rakyat’ was initially used in the 1986 legal regulation concerning plasma; however, the subsequent regulations adopt the term ‘Inti-Plasma’ (Nucleus-Plasma), which has been more popular to date.

By definition, the PIR is a scheme that uses large plantations, as the nucleus, to help and guide the surrounding people's smallholdings, as the plasma, in a system of mutually beneficial, complete and sustainable cooperation.<sup>6</sup>

Meanwhile, the Nucleus-Plasma Scheme is a partnership arrangement between a smallholder or a group of smallholders and a company in which the partner company acts as the nucleus and the partner smallholder or group of smallholders acts as the plasma.<sup>7</sup>

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<sup>5</sup> Since 1976, a cooperation agreement has been entered into by the government of Indonesia and the World Bank to initiative the nucleus estate-smallholder (NES) program, with the first phase of the program starting in Januari 1978, continued with the second in November 1978, the third and so on up to the seventh. The term NES was first introduced in the World Bank project document, which in Indonesia is known as PIR.

<sup>6</sup> Article 1, Inpres 1/1986 on Plantation Development Using the PIR-Trans Scheme.

<sup>7</sup> Article 4, Ministerial Decree of of Agriculture No. 940 of 1997 on Guildelines for Agricultural Business Partnership

## b. What Is A Plasma Estate?

Referring to the definition in the 1986 regulation,<sup>8</sup> a plasma estate is a plasma area set up and planted by a nucleus company. Meanwhile, a plasma area is defined as a residential and farming area developed by farmers participating in the PIR project, which includes the yard, the house and the plasma estate.

The definitions of Plasma Estate and Plasma Area above were made in the context of the government-sponsored transmigration program, in which the plantation development was integrated with the transmigration program. Therefore, participants of the scheme are farmers who took part in the Transmigration program.

Along with the development of law in Indonesia, in 1996-1998,<sup>9</sup> the definition of plasma estates evolved and was defined as estates that were built and planted by companies on the land belonging to the participating farmers under the KKPA scheme. Meanwhile, a plasma area was defined as an area that constitutes a business unit that is economically viable to be developed by participating farmers. Therefore, farmers participating in the plasma scheme since 1998 have been those who own parcels of land and are registered as KUD (Village-Level Business Cooperative) members.

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<sup>8</sup> Article 1, Inpres 1/1986 on Plantation Development Using The PIR-Trans Scheme.

<sup>9</sup> Based on Ministerial Decree of of Agriculture No.786 of 1996 on the Licensing of Plantation Businesses, Government Regulation No. 44 of 1997 on Partnership, Joint Decrees of the Minister of Agriculture and the Minister of Cooperative And Small Business Development No. 73/kpts/OT.210/2/98 and No.01/SKB/M/II/1998 on Guidelines for and Development of Village-Level Business Cooperative (KUD) in The Plantation Business Sector Using A Partnership Scheme through Utilization of Primary Cooperative's Loan for Members (KKPA)

### c. Plantation Business Partnership Schemes

The partnership scheme is the umbrella scheme for all plantation business partnerships between nucleus companies and plasma farmers. It is regulated by a Government Regulation (PP), which is then translated into the implementing regulations at the ministerial level. (see attachment 1).

Throughout the 1986-2022 period, plantation business partnership schemes were as follows:

#### PIR (NES) SCHEMES

- 1. PIR-BUN (NES-Plantation)** In this scheme, plantation companies as the nucleus help and guide the surrounding communities to develop oil palm estates through a mutually beneficial, complete and sustainable cooperation system.
- 2. PIR-TRANS (NES-Transmigration)** This scheme is the same as the above, but it is integrated with the transmigration program.
- 3. PIR-KKPA (NES-Primary Cooperative's Loan for Members)** In this scheme, members of primary cooperatives participating in the plasma scheme are provided with loans by the cooperatives.

#### PARTNERSHIP-COOPERATIVE SCHEMES

- 4. Koperasi Usaha Perkebunan (Plantation Business Cooperative)** In this scheme, the capital is 100% owned by the Plantation Business Cooperative.
- 5. Patungan Koperasi dengan Investor (Cooperative-Investor Joint Venture)** In this scheme, the shares are 65% owned by the cooperative and 35% by the investor/company.
- 6. Patungan Investor dengan Koperasi (Investor-** In this scheme, the share is 80% owned by the investor/company, with **the cooperative** at least holding 20%, which is gradually increased.

### Cooperative Joint Venture)

7. **BOT (Build, Operate and Transfer)** In this scheme, the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred to **the cooperative**.

8. **BTN (State Savings Bank)** In this scheme, the investor/company sets up the estates and/or mills and then transfers them to interested parties/owners who are members of a cooperative.

### OTHER SCHEMES

9. **Other development schemes** Other development schemes that are mutually beneficial, mutually empowering and interdependent between plasma farmers and plantation companies can be implemented through combination of schemes, which are adapted to the local socio-cultural situations and conditions.

#### 4. Analysis of Plasma Regulations and Their Application in Cases

The regulations listed below are those issued from the 1980s to 2022. While the term 'plasma' was already in use in plantation regulations as early as 1986, the nucleus-plasma schemes are regulated differently over time. The regulations analysed are those at the national and regional levels. They are listed based on the year of publication.

##### a. PIR-Trans (NES-Transmigrant) Scheme

The PIR-Trans Scheme was adopted in 1986 and was regulated in Presidential Instruction No. 1 of 1986 on Plantation Development Using the PIR-TRANS Scheme. Technical arrangements were through Ministerial Decree of Agriculture No.333/kpts/KB.5.510/6/1986 and Ministerial Decree of Agriculture No. 353/Kpts/KB.510/6/2003 on Procedures for Plantation Development Using the PIR-Trans Scheme. The PIR-Trans Scheme is further regulated throughout the plasma policy period, namely through Ministerial Decree of Agriculture No. 26 of 2007 and Ministerial Decree of Agriculture No. 98 of 2013 on the Licensing of Plantation Businesses.

**The PIR project** is a plantation development project consisting of development of nucleus and plasma estates by nucleus companies within a certain period of time. **Nucleus companies** are large plantation companies, either private or state-owned, which are assigned by the government to implement the PIR project. There are two entities in the PIR project, namely nucleus estates and plasma estates.

**Nucleus Estates** are large estates equipped with processing facilities that are set up (developed) and owned by nucleus companies in the context of the PIR project implementation. Meanwhile, **Plasma Estates** are plasma areas set up and planted by nucleus companies. **Participants of the PIR-Trans project** are farmers who are appointed by the government as the recipients of plasma estate ownership and who live in the plasma areas.

**The size of plasma area** under the PIR-Trans project is determined as follows:

1. plasma estate: 2.00 ha
2. yard, including the house: 0.50 ha

In a PIR-Trans project, **nucleus companies** have **the obligations** to:

- 1) Set up a nucleus estate equipped with processing facilities that can accommodate the products of the nucleus and plasma estates;
- 2) Set up plasma estates in accordance with the operational instructions and physical standards set by the Department of Agriculture Cq. the Director General of Plantation;
- 3) Act as the executor who prepares the yard and constructs the house for the participating farmers, with technical instructions from the Department of Transmigration;
- 4) Provide technical guidance for the participating farmers so that they are able to manage their estates well;
- 5) Accommodate (purchase) the products of the plasma estates at reasonable prices in accordance with the guidelines set by the Government, which in this case is the Minister of Agriculture;
- 6) Help the participating farmers with the loan repayment process.

**Plasma Farmers** have **the obligations** to:

- b. Repay the costs of the estate establishment; to this end, they are given a long-term soft loan by State-Owned Banks;
- c. Manage their plasma estates according to the guidance from the nucleus company;
- d. Hand over (sell) the products of their plasma estates to the nucleus company on mutually beneficial terms and at fair prices.

### **Example of The Implementation of the PIR-TRANS in Mentawai**

(source: various news)<sup>10</sup>

PT. X and PT. Y each obtained the Plantation Business Licence (IUP), covering the areas of 14,157 hectares and 2,542 hectares respectively. The plantation scheme implemented was the PIR-TRANS, which involved 9,000 transmigrant households. In the preparation of the land for the transmigration program, the local indigenous community were asked to hand over their land for the companies to build the transmigration area, and the nucleus and plasma estates.

These two companies approached the indigenous community members whose lands are covered by the business licences, persuading them to hand over their lands to the companies. The companies persuaded the local community on the pretext of "sosialisasi" ('sosialisasi' in Indonesia means 'act of dissemination or promotion'). This triggered pros and cons; some of the indigenous community members agreed to hand over their lands to the companies in the hope that it would improve their economy and open up job opportunities. Those who refused argued that their ownership status of the lands would be extinguished and the lands would be controlled directly by the State and given to companies through the HGU (right to use) as regulated in Basic Agrarian Law No. 5 of 1950 Articles 28-34.

Problems arose regarding the lands handed over to the companies. The community had no idea that they would lose the ownership of their lands as the lands would then be designated as the HGU areas. HGU Certificates are used by companies as collateral to obtain investment loans (capital loans) to set up plantations from banks appointed by the government in accordance with Bank Regulation No. (PBI) No.6/12/PBI/2004.

The companies' licence (IUP) expired in 2013, and the companies applied for an extension to the Regent of Mentawai on 14 August 2015. Such an application was strongly opposed by the indigenous community, and many supported their opposition. The community sent a letter to the district government of Mentawai and to relevant agencies both at the provincial and national levels, rejecting the proposal.

**In light of the case above, the problems and the root causes leading to such a conflict are:**

- 1) non-transparent information
- 2) the community handed over their lands because they were not well informed
- 3) unclear location of the plasma estates
- 4) Rejection of the extension of the companies' licence on the grounds of injustice

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<sup>10</sup> <https://www.kompasiana.com/pindaku/5621fc0d6523bd751324051a/perkebunan-sawit-pirtrans-tetap-mengancam-status-kepemilikan-tanah-di-mentawai>

## b. PIR-Bun (NES-Plantation) Scheme

The PIR-Bun scheme began in 1996 with the State appointing PT. Perkebunan Nusantara/PTPN (a state-owned plantation enterprise) to implement the scheme through Ministerial Decree of Agriculture No. 819 of 1996.

The Decree spells out PTPN's tasks in the PIR-BUN Project as follows:

- a. To act as the nucleus;
- b. To handle farmers' loan repayment process;
- c. To develop relationship with the plasma farmers in its work area;
- d. To provide technical guidance for the plasma farmers and to accommodate other farmers in its work area who want to develop cultivation;
- e. To purchase and market the products of the plasma estates;
- f. To assist the plasma farmers in their efforts to rejuvenate their plasma estates.

### **Example of the Implementation of The PIR-BUN Scheme in West Sumatra<sup>11</sup>**

PTPN VI Persero was appointed by the government to implement the PIR-Bun scheme. In 1996, PTPN VI Persero was appointed to manage the West Sumatra working area through PP No. 11 of 1996. PTPN VI succeeded in setting up an oil palm estate covering an area of 8,056 hectares, comprising a 3,256-hectare nucleus area and a 4,800-hectare plasma area. The nucleus area consisted of 4 sections and the plasma area consisted of 5 plasma estates. Planting was carried out in stages from 1982 to 1994. PTPN VI was operating in Luhak Nan Duo and Kinali sub-districts, Pasaman Barat District, ± 186 Km from West Sumatra Province's capital.

The partnership scheme implemented by PTPN VI (the PIR-Bun scheme) is known as the NESP (standing for **N**ucleus **E**state and **S**mallholder **P**articipation) Ophir project, which began on 3 March 1981 with loan assistance from the West German government amounting to DM65 million. The loan was a result of Loan Agreement No. 80.60.383 dated 31 August 1982

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<sup>11</sup> <https://spi.or.id/pembaruan-agraria-konflik-perkebunan-sawit/> dan <https://lenterakyat.blogspot.com/2009/02/konflik-perkebunan-aie-maruok-pasaman.html> dan <http://scholar.unand.ac.id/30634/>

between the Indonesian government and the German Ministry of Foreign Aid Cooperation (BMZ/Bundesministerium für Wirtschaftliche Zusammenarbeit).

The plasma farmers participating in the NESP Ophir project consisted of 54 percent of the local residents, who are an indigenous community (1,290), 35 percent of retired military personnel (840) and 11 percent of retired civil servants (270), totalling 2,400 heads of households. The total plasma area was 4,800 hectares, with another 1,102 hectares for housing/yards/food crops plots. Each of these plasma farmers was given 2 hectares for oil palm estates and 0.45 hectares for food crops/housing.

Later, the local residents demanded the return of the 1,300 hectares of land, which were disputed because it was previously taken over for the PIR-BUN project through coercion supported by the military force. The residents also rejected the extension of PTPN VI's licence (HGU), which would expire in 2017.

**In light of the case** above, the problems and the root causes leading to such a dispute are:

- 1) Forced handover of community's customary land for the PIR-BUN project
- 2) Rejection of the extension of the company's HGU due to injustice to indigenous people's land rights

### c. PIR-KKPA (NES-Primary Cooperative's Loan for Members) Scheme

The PIR-KKPA is a scheme in which primary cooperatives provide loan facilities for the members (*note: primary cooperatives are those established by individuals, as opposed to secondary cooperatives, which incorporate a number of primary cooperatives*). It was introduced and implemented right before the beginning of the reform era, and when the government's decentralization policy started to come into force. The technical arrangements were regulated in Joint Decrees of the Minister of Agriculture and the Minister of Cooperatives and Small Business Development No. 73/kpts/OT.210/2/98 and No.01/SKB/M/II/1998 on the Guidance for and Development of KUDs in the Plantation Business Sector Using A Partnership Scheme through the Utilization of Primary Cooperative's Loan for Members.

What serves as the nucleus company in this scheme is a medium/large-scale company, be it a private one, a state-owned enterprise (BUMN/BUMD) and/or a cooperative, engaged in the plantation business. The plasma area is the estates built and planted by the nucleus company on land owned by the participating farmers, who

are members of a primary cooperative (KUD), using loan from the cooperative.

The partnership relationship is based on cooperation in plantation business development between the KUD and the nucleus company, which embraces the interdependent, mutually empowering and mutually beneficial principles. In this cooperation, the nucleus company provides technical guidance for the KUD.

The parties involved in the KKPA scheme have their respective roles, as follows:

**1. KUD, playing a role in:**

- a. handling the business activities in the context of developing the capacity of its members and the estate development business area;
- b. increasing productivity and efficiency in farming management and other businesses;
- c. increasing members' awareness to be active in cooperative affairs;
- d. handling business activities with the nucleus company through a partnership relationship in accordance with the stages of the plasma estate development, which include the periods of:
  - 1) construction;
  - 2) the handover of plasma estates to the farmers until loan repayment;
  - 3) post-loan repayment.
- e. striving to improve the welfare of the participating farmers and their families through various business activities, including:
  - 1) savings and loans;
  - 2) provision and distribution of production facilities, basic daily needs and other services;
  - 3) maintenance of the estates and the roads; post-harvest management; transportation of the products; and other related activities;
  - 4) rejuvenation of the plants using the fund from the IDAPERTABUN, which is set aside from the sales of the products.
- f. handing over the plasma estates to each of the participating farmers, accompanied by a photocopy of the land (estate) certificate and the paperwork.

- g. managing the plasma estates given by the nucleus company, as a group.
- h. selling the products of the plasma estates to its nucleus company partner.

In accordance with the KKPA scheme, the KUD can act as the executing agent of loan, or the channelling agent of loan.

**2. Nucleus Company, playing a role in:**

- a. guiding and providing technical assistance for cultivation and management for the participating farmers (the KUD) in accordance with the stages of plasma estate development to ensure successful business activities and partnership;
- b. setting up the plasma estates in accordance with the applicable regulations;
- c. purchasing, processing and marketing the products of the plasma estates;
- d. assigning a role to the KUD from the establishment period to the handover period to loan repayment and post-loan repayment;
- e. setting up the nucleus estate and/or processing facilities according to the standards set by the government;
- f. assisting in handling instalments of the loan until it is paid off and in deducting payments for purchases from the IDAPERTABUN, the amount of which is based on the agreement between the nucleus company and the KUD.

**Partnership Relationship Between Nucleus Companies and KUDs**

The partnership between nucleus companies and KUDs must adhere to the principles below:

- d. KUDs carry out its activities in partnership with nucleus companies;
- d. The partnership between nucleus companies and KUDs is adjusted to the stages of plasma estate development;
- d. The partnership between nucleus companies and KUDs must be outlined in a written cooperation agreement which sets out the rights, obligations and sanctions, and must be guided by the agreement and by other applicable partnership provisions, and acknowledged by the local Regent;

- d. The partnership is implemented and managed in a clear, open manner;

KUDs are offered an opportunity to buy and/or own shares in partner nucleus companies in stages with the nominal share value and the proportion in accordance with the applicable agreement and provisions.

### **Plasma Estate Handover Mechanism**

The handover of the plasma estates under the KKPA scheme must fulfil the following conditions:<sup>12</sup>

- a. The plasma estates are handed over to KUDs and the participating farmers as a group based on an assessment of the technical aspects of cultivation determined by the Department of Agriculture;
- b. KUD managers have received education and training, and their business activities have been running in accordance with the stages of estate development;
- c. The fulfilment of the above requirements must be in accordance with the results of an assessment of the Team formed by the Department of Agriculture and the Department of Cooperatives and Small Business Development;
- d. In the event that the crops do not meet the technical cultivation requirements, nucleus companies can help improve them or the handover can be carried out with reduction of the loan burden in accordance with the agreement between the KUD, the Nucleus Company and the Lender (i.e. the Bank).

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<sup>12</sup> Article 8 of Joint Decrees of the Minister of Agriculture and the Minister of Cooperative and Small Business Development No. 73/kpts/OT.210/2/98 and No.01/SKB/M/II/1998 on Guidelines for and Development of Village-Level Business Cooperative (KUD) in The Plantation Business Sector Using A Partnership Scheme through Utilization of Primary Cooperative's Loan for Members (KKPA)

### **Example of The Implementation of The KKPA Scheme in Ketapang and Kayong Utara District**

PT X, the plantation company operating in Kayong Utara District, obtains an HGU covering 15,000 hectares in villages A and B. At the time when the initial agreement was reached, the KKPA scheme was adopted in which the ratio of nucleus company to plasma farmers was 80:20. The plasma farmers were united in the KUD. The plasma agreement stipulated that each of the plasma farmers would receive 2 ha of plasma estate, whose management would be fully handled by the KUD as an entity.

In PT X's HGU area (the nucleus area) lies a hamlet which did not receive plasma estates it was entitled to. This was where the conflict started to arise between the hamlet community and PT. X.

As the planted nucleus estate spanned 9,000 hectares, the community demanded the handover of 1,800 ha of plasma estates. However, up to the time when the conflict started to arise, only 600 ha had been handed over to the plasma farmers through the KUD. There were still 1,200 hectares to be handed over. Apart from that, there has been a demand for compensation for the waiting time as the plasma farmers has not received the plasma estates from the company since 2012.

PT. X did not want the 1200-hectare land for the plasma to be excised from its nucleus estate and offered the development of a new 1500-hectare estate outside the nucleus estate. This was rejected by the community because there was no more empty land available that could serve the purpose. Until now, this conflict is still ongoing and there have been efforts to resolve it through non-litigation means, but no resolution has been agreed to.

**In light of the case above, the problems and the root causes leading to such a conflict are:**

- 1) The company's inconsistency in fulfilling its obligation to provide plasma estates from its nucleus estate
- 2) The delay in handing over the plasma estates to the community has led to the community issuing another demand, namely compensation for the waiting time.

## **d. Partnership-Cooperative Scheme**

### **1) Legal umbrella for the Partnership-Cooperative Scheme**

The Partnership-Cooperative Scheme in the plantation business is the umbrella for various forms of partnership between plantation companies and communities. Partnership is not limited to plasma but also includes supporting businesses such as transportation

services, subcontracting, general trading, and others. In other words, an upstream-to-downstream plantation business partnership.

Partnership schemes are regulated by Law No. 9 of 1995 on Small Businesses. Its implementation is regulated by Government Regulation (PP) 44 of 1997 on Partnership.

The Partnership Scheme based on Law 9 of 1995 consists of: (Article 7)

- a. nucleus-plasma
- b. subcontracting;
- c. general trading;
- d. franchise;
- e. distributorship; and
- f. other forms.

In 2008, Law 9 of 1995 was replaced with Law 20 of 2008 on SMEs, where partnership consists of the following: (Article 26)

- a. nucleus-plasma;
- b. subcontracting;
- c. franchise;
- d. general trading;
- e. distribution and distributorship; and
- f. other forms of partnership, such as: profit sharing, operational cooperation, joint ventures, and outsourcing.

The partnership using the nucleus-plasma scheme as intended in Article 26 letter a is implemented in the following manner (Article 27):

- a. provision and preparation of land;
- b. provision of production facilities;
- c. provision of technical guidance for production and business management;
- d. acquisition, mastery, and improvement of necessary technology;
- e. financing;
- f. marketing;
- g. guarantee;
- h. provision of information; and

- i. provision of other forms of assistance necessary to improve efficiency and productivity, and business insight.

The nucleus-plasma partnership scheme is set out in PP 44/1997 with the following arrangements: (Article 3)

The Nucleus-Plasma Partnership Scheme consists of:

- a. provision and preparation of land;
- b. provision of production facilities;
- c. provision of technical guidance on business and production management;
- d. acquisition, mastery and improvement of necessary technology;
- e. financing; and
- f. provision of other forms of assistance necessary to improve business efficiency and productivity.

In implementing their business partnership, the parties are obligated to spell this out in an agreement as regulated in Article 18:

- (1) Small, Medium and Large Businesses which have agreed to enter into a partnership, shall make a written agreement in Indonesian and/or another agreed language and to which the Indonesian law applies.
- (2) The agreement as intended in paragraph (1) can be in the form of a private deed or a notarial deed.

Meanwhile, business partnerships in the agricultural sector are specifically regulated in Ministerial Decree of Agriculture No. 940 of 1997 on Guidelines for Agricultural Business Partnerships.

Ministerial Decree of Agriculture No. 940 of 1997 regulates partnerships as follows:

Article 3 – Principles of partnership

- a. Interdependent
- b. Mutually empowering
- c. Mutually beneficial

Article 4 - Partnership Scheme

- a. Nucleus-plasma
- b. Sub-contract

- c. General trading
- d. Distributorship
- e. And other forms such as Agribusiness Operational Cooperation.

The Nucleus-Plasma Scheme is a partnership relationship between a partner (or group of partners) and a partner company in which the partner company acts as the nucleus and the partner as the plasma.

In partnership in the agricultural (including plantation) business, the following articles set out the roles of the nucleus company and the partner (including the participating plasma farmers):

#### Article 6 – Roles of Nucleus Companies

- 1) Partner companies which act as the nucleus clear or provide land, and have and run their own cultivation business and processing units.
- 2) Nucleus companies provide guidance for services in the fields of technology, production facilities, capital or loan, and product processing; and accommodate or market the products of the partners.

#### Article 9 – Terms of Partners

- a. Having good intentions in helping farmer’s businesses and other small businesses
- b. Having good technology and management
- c. Developing a partnership plan
- d. Having a legal status and solid bona fides

#### Article 10 – Partnership agreement

- 1) Agricultural business partnerships must be preceded by the signing of a partnership agreement.
- 2) The contents of the cooperation agreement shall include the period of the partnership; the rights and obligations, including the obligation to report the partnership to the Technical Development Service in the region; sharing of the risk of settlement in the event that a dispute occurs; and other clauses which provide legal certainty for both parties.

The regulations regarding the partnership-cooperative scheme have now been amended by the Job Creation Law and Government Regulation No. 7 of 2021 on Facilitation, Protection, Empowerment of Cooperatives and Micro, Small and Medium Enterprises. The amended partnership scheme, however, is similar to that previously

implemented. The partnership scheme regulated in Government Regulation 7 of 2021, as stated in Article 106, is as follows:

- a. nucleus-plasma
- b. sub-contract;
- c. franchise
- d. general trading;
- e. distribution and distributorship;
- f. supply chain; and
- g. other forms of partnership including profit sharing, operational collaboration, joint ventures and outsourcing.

## 2) Partnership-Cooperative Scheme in Plantation Business

In the plantation business partnership scheme, the Ministry of Agriculture has since 1999 issued regulations regarding guidelines for the licensing of plantation businesses, which also regulate partnership schemes. Below is a brief overview of the partnership scheme arrangements.

### a. Plantation partnerships based on Ministerial Decree of Forestry and Plantation No. 107 of 1999 on the Licensing of Plantation Businesses

- Regarding the size of plantation area (Article 4)
  - a. The maximum land area for large plantation businesses, except for sugar cane plantations, is 20,000 hectares in one province or 100,000 hectares throughout Indonesia;
  - b. The maximum area of sugarcane plantation business is 60,000 hectares in one province or 150,000 hectares throughout Indonesia;
  - c. The maximum area of large plantation business in Papua Province is twice the maximum area of large plantation business in other provinces as referred to in letters a and b above.

### - Plantation Business Development Schemes (Article 6)

Plantation companies develop their business through one of the 5 (five) Development Schemes, namely:

- The Plantation Business Cooperative Scheme, that is, a development scheme in which 100% of the shares are owned by the Plantation Business Cooperative;

- The Cooperative-Investor Joint Venture Scheme, that is, a development scheme in which 65% of the shares are owned by the cooperative and 35% are owned by the investor/company;
  - The Investor-Cooperative Joint Venture Scheme, that is, a development scheme in which 80% of the shares are owned by the investor/company and at least 20% are owned by the cooperative, which is gradually increased;
  - The BOT (Build Operate and Transfer) Scheme, that is, a development scheme in which the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred to the cooperative;
  - The BTN (State Savings Bank) Scheme, that is, a development scheme in which the investor/company establishes the estates and/or mills which will then be transferred to interested parties/owners who are members of a cooperative.
- Partnership Obligations to Large Plantations (Article 15)  
Every company which has obtained the IUP is obligated (among others) to partner with cooperatives, and small and medium businesses.

**b. Plantation partnerships based on Ministerial Decree of Agriculture No. 357 of 2002 on Guidelines for the Licensing of Plantation Businesses**

- Regarding the obligations of plantation companies to incorporate plantation farmers (Article 8)
- (1) Any plantation business development must incorporate plantation farmers.
  - (2) The development as intended in paragraph (1) can be carried out in various schemes, namely:
    - a. The Plantation Business Cooperative Scheme, that is, a development scheme in which the business capital is 100% owned by the Plantation Business Cooperative.
    - b. The Cooperative-Investor Joint Venture Scheme, that is, a development scheme in which 65% of the shares are owned by the cooperative and 35% owned by the investor/company.
    - c. The Investor-Cooperative Joint Venture Scheme, that is, a development scheme in which 80% of the shares are

owned by the investor/company and at least 20% are owned by the cooperative, which is gradually increased.

- d. The BOT (Build, Operate and Transfer) Scheme, that is, a development scheme in which the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred to the cooperative.
  - e. The BTN (State Savings Bank) Scheme, that is, a development scheme in which the investor/company establishes the estates and/or mills which will then be transferred to interested parties/owners who are members of a cooperative.
  - f. Other development schemes which are mutually beneficial, mutually empowering and interdependent.

(3) The development schemes as intended in paragraph (2) can be implemented in combination, and adapted to the local socio-cultural situations and conditions.

- Regarding the requirements for obtaining the plantation business licence/IUP: (Article 10)

One of the requirements to obtain the IUP is attaching a statement regarding which development scheme to be adopted, which is made in a notarial deed

- Regarding the Obligations of Plantation Companies which have obtained the IUP: (Article 19)

One of the obligations which must be complied with by plantation companies having obtained the IUP is to develop and empower local communities and cooperatives.

- Regarding Sanctions of Revocation of IUP (Article 21)

Failures to meet the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP.

**c. Plantation Partnership based on Ministerial Decree of Agriculture No. 26 of 2007 on Guidelines for the Licensing of Plantation Businesses**

- Regarding the Obligation of Plantation Companies to Build Estates for the Surrounding Community (Article 11)
  - (1) Plantation companies obtaining the IUP or the IUP-B (IUP-Cultivation) are obligated to build estates for the surrounding community, the extent of which should be at least 20% (twenty percent) of the total licence area.
  - (2) The development of estates for the surrounding community as intended in paragraph (1) can be carried out, among others, through a loan, grant or profit sharing scheme.
  - (3) The development of estates for the surrounding community as intended in paragraph (1) is carried out simultaneously with the development of the companies' estate.
  - (4) The plan to develop estates for the surrounding community as intended in paragraph (1) must be acknowledged by the Regent/Mayor.
  
- Regarding the requirements for obtaining the IUP (Article 15)

One of the requirements for obtaining the IUP is a statement of willingness to build estates for the surrounding community in accordance with Article 11, accompanied by a work plan.

- Regarding the requirements for obtaining the IUP (Article 17)

One of the requirements for obtaining the IUP is a statement of willingness to build estates for the surrounding community in accordance with Article 11, accompanied by a work plan.

- Obligations of Plantation Companies which have obtained the IUP: (Article 34)

One of the obligations of plantation companies having obtained the IUP is to develop and empower the local community and cooperatives.

- Regarding Sanctions of Revocation of IUP (Article 38)

Failures to meet the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP and a proposal submitted to the relevant authority to revoke the company's HGU.

**d. Plantation Partnerships based on Ministerial Decree of Agriculture No. 98 of 2013 on Guidelines for the Licensing of Plantation Businesses, as amended twice and most recently by Ministerial Decree of Agriculture No. 21 of 2017.**

- Some Definitions
  - Perkebunan Inti Rakyat-Perkebunan (PIR-BUN/NES-Plantation) is a plantation development scheme using large plantations as the nucleus, which helps and guides the surrounding people's estates in a mutually beneficial, complete and sustainable cooperation system.
  - Perkebunan Inti Rakyat-Transmigrasi (PIR-TRANS/NES-Transmigration) is a plantation development scheme using large plantations as the nucleus which helps and guides the surrounding people's estates in a mutually beneficial, complete and sustainable cooperation system, which is integrated with the transmigration program.
  - Perkebunan Inti Rakyat-Kredit Koperasi Primer untuk Anggota (PIR-KKPA/NES-Primary Cooperative's Loan for Members) is a NES scheme in which primary cooperatives provide loan facilities for the members.
- Regarding the Obligations of Plantation Companies to Build Estates for the Surrounding Community (Article 15)
- (1) Plantation Companies applying for the IUP-B or IUP with an area of 250 (two hundred and fifty) hectares or more, are obligated to facilitate the development of estates for the surrounding community, the extent of which is at least 20% (twenty percent) of the IUP-B or IUP area.

- (2) The community's estates as intended in paragraph (1) are situated outside the IUP-B or IUP area.
- (3) The obligation to facilitate the development of estates for the surrounding community as intended in paragraph (1) takes the following into consideration:
  - a. the availability of land;
  - b. the number of families in the IUP-B or IUP immediate area who are eligible to participate; and
  - c. the agreement between the nucleus company and the surrounding community, which is acknowledged by the head of the provincial or district/city Plantation Service according to his/her authority.
- (4) The surrounding community members who are eligible to participate as intended in letter b are:
  - e. those whose land is used for the estate development and who have low incomes in accordance with the legislation;
  - e. those who reside around the IUP-B or IUP area; and
  - e. those who are able to manage their estate
- (5) Members of the surrounding community who are eligible to participate as intended in paragraph (4) are determined by the regent/mayor based on the nomination from the local sub-district head.
- (6) The implementation of the estate development for the surrounding community by companies obtaining the IUP-B or the IUP, which includes the planning, compliance with the obligations, and business sustainability, is accompanied and overseen by the governor or regent/mayor in accordance with his/her authority.

- Regarding the Obligations to Facilitate the Development of Estates for the Surrounding Community (Article 16)

- (1) The obligation to facilitate the development of estates for the surrounding community as intended in Article 15 is carried out by utilizing loan, profit sharing schemes and/or other forms of funding in accordance with the agreement and the legislation.

(2) The obligation to facilitate the development of estates for the surrounding community as intended in paragraph (1) does not apply to legal entities in the form of cooperatives.

- Regarding the Obligations of Plantation Companies Which Have Obtained the IUP: (Articles 21 and 23)

One of the obligations that must be complied with by plantation companies which have obtained the IUP is to develop and empower the local community and cooperatives.

- Regarding the acquisition of plantation land, which is encumbered with collective rights of customary law communities (Article 24)

In the event that the land used for plantation business is encumbered with collective rights (*hak ulayat*) of a customary law community, then in accordance with the legislation the applicant for a plantation business licence must first hold discussions to reach an agreement with the customary law community and the individuals holding the right to the land; the agreement must be expressed in an agreement document, which spells out the agreed handover and any compensation for it, and must be acknowledged by the governor or the regent/mayor according to his/her authority.

- Regarding the Obligations of Plantation Companies after Obtaining the IUP (Article 40)

One of the obligations of plantation companies is to facilitate the development of estates for the surrounding community at the same time as that of the company's estates; such development must be completed within a maximum of 3 years.

- Regarding Sanctions of Revocation of IUP (Article 51)

Failures to comply with the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP and a proposal being submitted to the competent authority for the revocation of the company's HGU.

- Regarding Transitional Provisions (Article 60)
  - (1) The provision as intended in Article 15 paragraph (1) does not apply to plantation companies which obtained a plantation business licence before 28 February 2007 and which have implemented the PIR-BUN, PIR-TRANS, PIR-KKPA schemes, or other nucleus-plasma partnership schemes.
  - (2) Plantation Companies which do not implement the PIR-BUN, PIR-TRANS, PIR-KKPA schemes, or other nucleus-plasma partnership schemes as intended in paragraph (1) are obligated to carry out productive business activities for the surrounding community according to the local conditions based on an agreement between the company and the surrounding community, which is acknowledged by the governor or regent/mayor according to his/her authority.
    - (3) The productive businesses as intended in paragraph (2) are those which can provide a source of livelihood for the surrounding community.

**e. Plantation partnerships based on Ministerial Decree of Agriculture No. 26 of 2015 on Requirements, Procedures and SOPs for provision of technical recommendations for the Licensing of Agricultural Businesses in the context of capital investment**

- Regarding the requirements for the granting of the licence to plantation business (IUP-Cultivation): (Article 12)  
Among the requirements are a work plan for the company's estate development, including a plan to facilitate the development of estates for the surrounding community, and a statement of capability to facilitate the development of estates for the surrounding community, which is accompanied by a work plan and a financing plan.
- Regarding the requirements for the granting of IUP (integration of plantation business with industries processing plantation products): (Article 14)  
Among the requirements are a work plan for the company's estate development, including a plan to facilitate the development of estates for the surrounding

community, and a statement of capability to facilitate the development of estates for the surrounding community, which is accompanied by a work plan and a financing plan.

#### **e. Partnership Schemes in Regional Regulations**

Districts/cities which host plantation businesses also have regional regulations which regulate business licensing and partnerships. In general, such regulations are in conformity with higher-level ones, that is, ministerial decrees or laws. Here, we only discuss one regional regulation, that is, the regulation of Sanggau district, as data on regional regulation documents related to plantation business licensing in districts/cities are limited. The Sanggau district regulation document is the one which we had at our disposal at the time of analysis.

Sanggau District, which has long been a centre for plantation businesses, especially oil palm, has had Regional Regulation (*Perda*) No. 3 of 2004 on the Implementation of Oil Palm Plantation Business Partnership Schemes.

The plantation business partnership schemes regulated in the Regulation are similar to those regulated in national-level regulations, as follows:

- a) The Plantation Business Cooperative Scheme, that is, a plantation development scheme in which the business capital is 100% owned by the Plantation Business Cooperative.
- b) The Cooperative-Investor Joint Venture Scheme, that is, a plantation development scheme in which 65% of the shares are owned by the cooperative and 35% owned by the investor/company.
- c) The Investor-Cooperative Joint Venture Scheme, that is, a plantation development scheme in which 80% of the shares are owned by the investor/company and at least 20% are owned by the cooperative, which is gradually increased.
- d) The BOT (Build, Operate and Transfer) Scheme, that is, a plantation development pattern in which the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred the cooperative.

- e) The BTN (State Savings Bank) Scheme, that is, a plantation development scheme in which the investor/company establishes the estates and/or mills, which will then be transferred to interested parties/owners who are members of a cooperative.

And other development schemes which are mutually beneficial, mutually empowering, and interdependent.

## **f. Comparison of Partnership Schemes**

The matrix below is prepared to make it easier to understand the differences in partnership schemes implemented in the plantation business in Indonesia.

|                                    | PIR-BUN (NES-Plantation)   | PIR-TRANS (NES-Transmigration)                                     | PIR-KKPA (NES-Primary Cooperative's Loan for Members)   | Partnership-Cooperative   | Other Partnership Schemes        |
|------------------------------------|--|--|---|---|----------------------------------|
| <p><b>Plasma: Nucleus Area</b></p> | <p>2 ha of plasma for each community member in the PIR-BUN area</p>          | <p>2 ha of plasma, with 80% (plasma):20% (nucleus)</p>             | <p>The most common scheme is 80 (nucleus):20 (plasma)</p>   | <p>Options:<br/> 1. Plantation Business Cooperative, 100% owned by the Cooperative<br/> 2. Cooperative-Investor Joint Venture, 65 (cooperative):35 (investor)<br/> 3. Investor-Cooperative Joint Venture, 80 (investor):20 (cooperative)<br/> 4. BOT (build, Operate, Transfer)<br/> 5. BTN, companies <u>builds</u> the estates and transfer them to the Cooperative<br/> 6. Other development schemes</p> | <p>None to learn from as yet</p> |
| <p><b>Plasma location</b></p>      | <p>Designated by the Government, with PTPN appointed as the core manager</p> | <p>In transmigration areas designated by the relevant minister</p> | <p>1998-2006, plasma estates could be built inside or outside HGU areas; 2007-2012, plasma estates were built inside HGU areas; 2013-present, plasma estates were built outside HGU areas</p> | <p>Agreed areas (as stated in the partnership agreement)</p>  | <p>None to learn from as yet</p> |

|                                      |  |   |  |  |                           |
|--------------------------------------|--|---|--|--|---------------------------|
| <b>Plasma participants</b>           | The surrounding farmers who handed over their land for nucleus and plasma estates; determined in a decree on participation     | <ul style="list-style-type: none"> <li>• Transmigrants appointed by the national government</li> <li>• Transmigrants appointed by the Minister of Transmigration</li> <li>• Surrounding community, including farmers impacted by the development project, appointed by the local government</li> <li>• Shifting cultivators in the project's immediate area, appointed by the local government</li> </ul> | Farmers appointed by the government as plasma farmers, and who have handed over their lands  | Cooperative Members under the cooperative's arrangements   | None to learn from as yet |
| <b>Land acquisition models</b>       | Handover from the previous (customary or non-customary) owners, who in turn receive compensation in the form of plasma estates | Government-appointed transmigration areas, excised from APL (areas for other uses) or customary lands or forest areas   | Handover, with agreed compensation for destroyed crops ( <i>ganti rugi tanam tumbuh</i> )  | Partnership Agreement  | None to learn from as yet |
| <b>Cost of Estate Development</b>    | Loan facilities/aids from the World Bank through the NESP project  | Loans from the Bank of Indonesia or government-appointed banks; the repayment burden falls on the plasma farmers  | <ul style="list-style-type: none"> <li>• First covered by the nucleus company</li> <li>• BANK refinancing after transferred to the plasma farmers</li> </ul> | Covered by the cooperative if using the Plantation Business Cooperative scheme; covered by the nucleus company if using any of the other schemes above | None to learn from as yet |
| <b>Minimal mandatory plasma area</b> | 2 ha   | 2 ha for each of the transmigrant's households  | 2 ha; since 2007, at least 20% of the nucleus area. Plasma areas are built inside the HGU area if using the One-Stop Partnership scheme                      | According to the chosen scheme   | None to learn from as yet |

|                                     |  |  |  |   |  |
|-------------------------------------|--|--|--|---|--|
| <b>Existence of Cooperative</b>     | None   | None   | Mandatory. Cooperatives are the party representing member farmers in an agreement. Cooperatives will manage the HGU after the transfer of the plasma estates | Mandatory   | None to learn from <a href="#">as.yeti</a> |
| <b>Terms and Forms of Agreement</b> | Not explicitly stated  | Plasma farmers are parties to a binding agreement with the bank (lender)   | Partnership Agreement, Cooperative Loan Agreement, companies (avalist) and the BANK  | Partnership Agreement is made before a Notary                 | None to learn from <a href="#">as.yeti</a> |
| <b>Plasma Handover Period</b>       | Not explicitly stated  | Four (4) years after the planting  | Four (4) years after the development (including the planting)  | According to the Partnership Agreement                        | None to learn from <a href="#">as.yeti</a> |
| <b>Land Ownership</b>               | <ul style="list-style-type: none"> <li>HGU for nucleus companies</li> <li>SHM (Land Certificate) for plasma farmers</li> </ul> | <ul style="list-style-type: none"> <li>HGU for nucleus companies</li> <li>SHM (Land Certificate) for plasma farmers</li> </ul> | HGU if the plasma estates are managed by the HGU holder; SHM if managed by plasma farmers  | HGU if the plasma estates are directly managed by the company | None to learn from <a href="#">as.yeti</a> |
| <b>Licence</b>                      | All the applicable licensing for plantation investments  | All the applicable licensing for plantation investments  | All the applicable licensing for plantation investments  | All the applicable licensing for plantation investments       | None to learn from <a href="#">as.yeti</a> |
| <b>Licensing Authority</b>          | National government  | National government  | District and provincial governments  | District and provincial governments                           | None to learn from <a href="#">as.yeti</a> |

## Appendices

| No | Year | Decreases   | Regulations On Plasma  |
|----|------|---|--|
| 1  | 1986 | Presidential Instruction No. 1 of 1986 on Plantation Development Using the PIR-TRANS Scheme | <p><b>Definition:</b></p> <ul style="list-style-type: none"> <li>• <i>Pola Perkebunan Inti Rakyat</i>, hereinafter abbreviated as <b>Pola PIR</b> [the nucleus estate and smallholder (NES) scheme] is a scheme that uses large plantations, as the nucleus, to help and guide the surrounding people's smallholdings, as the plasma, in a system of mutually beneficial, complete and sustainable cooperation.</li> <li>• <b>The PIR project</b> is a plantation development project consisting of development of nucleus and plasma estates by nucleus companies within a certain period of time.</li> <li>• <b>Nucleus companies</b> are large plantation companies, both private and state-owned, which are appointed to implement the PIR project.</li> <li>• <b>Nucleus Estates</b> are large estates equipped with processing facilities that are set up (developed) and owned by nucleus companies in the context of the PIR project implementation.</li> <li>• <b>Plasma area</b> is a residential and farming area developed by farmers participating in the PIR project, which includes the yard, the house and the plasma estate.</li> <li>• <b>Plasma Estates</b> are plasma areas set up and planted by nucleus companies.</li> <li>• <b>Participating farmers</b> in the PIR project, hereinafter referred to as 'participating farmers', are farmers who are appointed as the recipients of plasma estate ownership and domicile in the plasma area.</li> <li>• <b>Plantation crops</b> are oil palm, rubber, sugar cane and other hard crops determined by the Minister of Agriculture.</li> </ul> <p><b>Size of plasma area</b> under the PIR-Trans project</p> <ol style="list-style-type: none"> <li>1. plasma estate: 2.00 ha</li> <li>2. yard, including the house: 0.50 ha</li> </ol> <p><b>Obligations of Nucleus Companies:</b></p> <ol style="list-style-type: none"> <li>1. Set up a nucleus estate equipped with processing facilities that can accommodate the products of the nucleus and plasma estates;</li> <li>2. Set up plasma estates in accordance with the operational instructions and physical standards set by the Department of</li> </ol> |

|   |      |  |  |
|---|------|--|--|
|   |      |  | <p>Agriculture Cq. the Director General of Plantation;</p> <ol style="list-style-type: none"> <li>3. Act as the executor who prepares the yard and constructs the house for the participating farmers, with technical instructions from the Department of Transmigration;</li> <li>4. Provide technical guidance for the participating farmers so that they are able to manage their estates well;</li> <li>5. Accommodate (purchase) the products of plasma estates at reasonable prices in accordance with the guidelines set by the Government, which, in this case, is the Minister of Agriculture;</li> <li>6. Help the participating farmers with the loan repayment process.</li> </ol> <p><b>Obligations of Plasma Farmers:</b></p> <ol style="list-style-type: none"> <li>a. Repay the costs of the estate establishment; to this end, they are given long-term soft loan by State-Owned Banks;</li> <li>b. Manage their plasma estates according to the guidance from the nucleus company;</li> <li>c. Hand over (sell) the products of their plasma estates to the nucleus company on mutually beneficial terms and at fair prices.</li> </ol>                      |
| 2 | 1996 | Ministerial Decree of Agriculture No.786 of 1996 on the Licensing of Plantation Businesses | <p><b>Plantation Businesses are classified into: (Article 5)</b></p> <ol style="list-style-type: none"> <li>(1) Plantation Business, classified into: <ol style="list-style-type: none"> <li>a. Large Plantation Businesses;</li> <li>b. Community's Plantation Businesses.</li> </ol> </li> <li>(2) Community's Plantation Businesses as intended in paragraph (1) letter b are classified into: <ol style="list-style-type: none"> <li>a. Businesses carried out on privately-owned land;</li> <li>b. Businesses carried out on government-leased land (HGU land) with an area of less than 25 ha.</li> </ol> </li> </ol> <p><b>Registration of Community's Plantation and Community's Plantation Industrial Businesses (Article 35)</b></p> <ol style="list-style-type: none"> <li>(1) Community's Plantation Businesses or Community's Plantation Industrial Businesses must be registered by the owner/manager with the local Plantation Service (<i>Dinas Perkebunan</i>).</li> <li>(2) After registration, the Head of the Plantation Service issues a Registration Certificate for Community's Plantations or Community's Plantation Industrial Businesses.</li> </ol> |

|   |      |   |   |
|---|------|---|---|
|   |      |   | <p>(3) Registration as intended in paragraph (2) is valid as long as the business is still running or in production.</p> <p>(4) The owner or manager is obligated to report to the local Plantation Service if his/her plantation business or plantation industry business has stopped or is not producing.</p> <p><b>Other provisions regarding partnerships: (Article 40)</b></p> <p>(1) Business Cooperation between Plantation Companies and Community's Plantations, or Community's Plantation Industries must be made in the form of a written agreement and acknowledged by the Regional Government, while cooperation among plantation companies must be made in front of a Notary.</p> <p>(2) The cooperation as intended in paragraph (1) is a business partnership relationship between plantation companies and Community's Plantations, or Community's Plantation Industries, or among plantation companies, of equal standing, based on the interdependent, mutually empowering and mutually beneficial principles.</p> <p>(3) In its implementation, any partnership as intended in paragraph (2) is made in the form of a written agreement based on mutual agreement and is signed by the parties concerned.</p> |
| 3 | 1996 | Ministerial Decree of Agriculture No. 819 of 1996 on the Assignment of PT. Perkebunan Nusantara in Implementing NES-Plantation Projects | <p><b>The roles of PT Perkebunan Nusantara (PTPN) in NES-Plantation projects:</b></p> <ol style="list-style-type: none"> <li>Acting as the nucleus;</li> <li>Handling farmers' loan repayment;</li> <li>Developing partnership relationship with the plasma farmers in its work area;</li> <li>Providing technical guidance for the plasma farmers and to accommodate other farmers in its work area who want to develop cultivation;</li> <li>Purchasing and marketing the products of the plasma estates;</li> <li>Assisting plasma farmers in their efforts to rejuvenate their plasma estates:</li> </ol>   |
| 4 | 1997 | Government Regulation No. 44 of 1997 on Partnership   | <p><b>Definition:</b></p> <ol style="list-style-type: none"> <li>Partnership is business cooperation between Small Business, and Medium and/or Large Businesses, which is accompanied by guidance and development by the Medium Businesses and/or Large Businesses, taking into consideration the interdependent,</li> </ol>  |

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|   |      |  | <p>mutually empowering and mutually beneficial principles.</p> <ol style="list-style-type: none"> <li>2. Small businesses are community's economic activities on a small scale</li> <li>3. Medium and/or Large Businesses are economic activities whose net assets or annual sales exceed those of Small Businesses.</li> </ol> <p>Article 3 –Nucleus-Plasma Partnership Scheme</p> <ol style="list-style-type: none"> <li>a. provision and preparation of land;</li> <li>b. provision of production facilities;</li> <li>c. provision of technical guidance for business and production management;</li> <li>d. acquisition, mastery and improvement of necessary technology;</li> <li>e. financing; and</li> <li>f. provision of other forms of assistance necessary to improve business efficiency and productivity.</li> </ol>   |
| 5 | 1997 | Ministerial Decree of Agriculture No. 940 of 1997 on Guidelines for Agricultural Partnership | <p><b>Definition:</b></p> <ol style="list-style-type: none"> <li>1) <b>Plantation businesses</b> are cultivation activities and/or industries processing plantation products, in the form of community's plantations cultivated by individuals on privately-owned or HGU land, and plantation companies on their HGU land, from seeding, planting, processing of plantation products up to marketing.</li> <li>2) <b>Partner companies</b> are agricultural companies or companies engaged in the agricultural sector, be it private companies, or state-owned companies (BUMN or BUMD), which cooperate with partner groups.</li> </ol> <p><b>Article 2 – Purposes of Partnership</b></p> <ol style="list-style-type: none"> <li>3) Agricultural Business Partnership is carried out to increase partner groups' income, business sustainability, resource quality, and business scale, in order to grow and improve the independence of partner group's business capabilities.</li> <li>4) Agricultural business partner groups include:</li> <li>5) Farmers-Fishermen,</li> <li>6) Farmer-Fishermen Groups</li> <li>7) Association of Farmer-Fishermen Groups</li> <li>8) Cooperatives</li> </ol> |

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|  |  |  | <p>9) Small Businesses</p> <p>Partner Companies include:</p> <p>b. Large agricultural company<br/> c. Medium company in the agricultural sector</p> <ol style="list-style-type: none"> <li>1) Medium agricultural businesses</li> <li>2) Large agricultural businesses</li> <li>3) Medium businesses engaged in the agricultural sector</li> <li>4) Large businesses engaged in the agricultural sector</li> </ol> <p><b>Article 3 – Principles of Partnership</b></p> <ol style="list-style-type: none"> <li>1) Interdependent</li> <li>2) Mutually empowering</li> <li>3) Mutually beneficial</li> </ol> <p><b>Article 4 – Partnership Schemes</b></p> <ol style="list-style-type: none"> <li>1) Nucleus-plasma</li> <li>2) Sub-contract</li> <li>3) General trading</li> <li>4) Distributorship</li> </ol> <p>And other forms such as Agribusiness Operational Cooperation.</p> <p>The Nucleus-Plasma Scheme is a partnership relationship between a partner (or a group of partners) and a partner company in which the partner company acts as the nucleus and the partner as the plasma.</p> <p><b>Article 6 – Roles of Nucleus Companies</b></p> <ol style="list-style-type: none"> <li>1) Partner companies which act as the nucleus clear or provide land, and have and run their own cultivation business and processing units</li> <li>2) Nucleus companies provide guidance for services in the fields of technology, production facilities, capital or loan, and product processing; and accommodates or markets the products of the partners.</li> </ol> <p><b>Article 9 – Terms of Partners</b></p> <ol style="list-style-type: none"> <li>1) Having good intentions in helping farmer’s businesses and other small businesses</li> <li>2) Having good technology and management</li> <li>3) Developing a partnership plan</li> <li>4) Having a legal status and solid bona fides</li> </ol> |
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|   |      |  | <p><b>Article 10 – Partnership agreement</b></p> <ol style="list-style-type: none"> <li>1) Agricultural business partnerships shall be preceded by the signing of a partnership agreement.</li> <li>2) The contents of the cooperation agreement shall include the period of partnership; the rights and obligations, including the obligation to report the partnership to the Technical Development Service in the region; sharing of the risk of settlement in the event that a dispute occurs; and other clauses which provide legal certainty for both parties.</li> </ol>   |
| 6 | 1998 | <p>Joint Decrees of the Minister of Agriculture and the Minister of Cooperatives and Small Business Development No. 73/kpts/OT.210/2/98 and No.01/SKB/M/II/1998 on the Guidance for and Development of KUDs in the Plantation Business Sector Using A Partnership Scheme through the Utilization of Primary Cooperative’s Loan for Members</p> | <p><b>Definition:</b></p> <ol style="list-style-type: none"> <li>1. Loan for Members of Primary Cooperatives, hereinafter referred to as KKPA, is investment loan and/or working capital loan provided by Banks to Primary Cooperatives to be passed on to the members to finance productive businesses.</li> <li>2. Nucleus Companies are medium/large scale companies medium/large-scale company, be it private ones, state-owned businesses (BUMN/BUMD) and/or cooperatives, engaged in the plantation business.</li> <li>3. Plasma estates are those built and planted by nucleus companies on land owned by the participating farmers using loan from primary cooperatives.</li> <li>4. Participating farmers are those who own land and are members of a KUD.</li> <li>5. A plasma area is one which constitutes a business unit that is economically viable to be developed by participating farmers.</li> <li>6. Partnership relationship in the plantation sector is partnership cooperation in plantation business development between a KUD and a nucleus company, with the latter providing technical assistance for the former, which embraces the interdependent, mutually empowering and mutually beneficial principles.</li> <li>7. <i>Iuran Dana Peremajaan Tanaman Perkebunan</i> (Plantation Rejuvenation Fund Contribution), hereinafter referred to as the IDAPERTABUN, is fund provided independently by the participating farmers for rejuvenation, which also constitutes life insurance for the farmers so that they can independently continue their farming business in the future.</li> </ol> |

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|  |  | <p>8. Construction period is the period covering the development of plasma estates by the Nucleus Company up to the handover of the plasma estates.</p> <p>9. Estate handover to loan repayment period is the period covering the handover of plasma estates by the Nucleus Company to the participating farmers through their KUDs, the repayment of the loan by the participating farmers; and the instalments of the loan from deductions from the sales of the participating farmers' products to the Bank through the Nucleus Company.</p> <p>10. Post-loan repayment period is the period when the sales of the participating farmer's products to the Nucleus Company is not burdened by loan instalments.</p> <p><b>Roles of KUDs: (Article 5)</b></p> <p>i. Handling the business activities in the context of developing the capacity of the members and the estate development business areas;</p> <p>j. Increasing productivity and efficiency in farming management and other businesses;</p> <p>k. Increasing members' awareness to be active in cooperative affairs;</p> <p>l. Handling business activities with the nucleus company through a partnership relationship in accordance with the stages of the plasma estate development, which include the periods of:</p> <ol style="list-style-type: none"> <li>1) construction;</li> <li>2) the handover of plasma estates to the famers until loan repayment;</li> <li>3) post-loan repayment.</li> </ol> <p>m. Striving to improve the welfare of the participating farmers and their families through various business activities, including:</p> <ol style="list-style-type: none"> <li>1) savings and loans;</li> <li>2) provision and distribution of production facilities, basic daily needs and other services;</li> <li>3) maintenance of the estates and the roads; post-harvest management; transportation of the products; and other related activities;</li> <li>4) rejuvenation of the plants using the fund from the IDAPERTABUN, which is set aside from the sales of the products.</li> </ol> |
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|  |  |  | <p>n. Handing over the plasma estates to each of the participating farmers, accompanied by a photocopy of the land (estate) certificate and the paperwork.</p> <p>o. Managing the plasma estates given by the nucleus company, as a group.</p> <p>p. Selling the products of the plasma estates to its nucleus company partner.</p> <p>In accordance with the KKPA scheme, the KUD can act as the executing agent of loan, or the channelling agent of loan.</p> <p><b>Nucleus Companies' Duties: (Article 7)</b><br/>Nucleus companies shall:</p> <p>a. guide and provide technical assistance for cultivation and management for the participating farmers (the KUD) in accordance with the stages of plasma estate development to ensure successful business activities and partnership;</p> <p>b. set up the plasma estates in accordance with the applicable regulations;</p> <p>c. purchase, process and market the products of the plasma estates;</p> <p>d. assign a role to the KUD from the establishment period to the handover period to credit repayment and post-loan repayment;</p> <p>e. set up the nucleus estate and/or mills according to the standards set by the government;</p> <p>f. assist in handling instalments of the loan until they are paid off and in deducting payments for purchases from the IDAPERTABUN, the amount of which is based on the agreement between the nucleus company and the KUD.</p> <p><b>Conditions for Handover of Plasma Estates by Nucleus Companies: (Article 8)</b></p> <p>a. Plasma estates are handed over to KUDs and participating farmers as a group, based on an assessment of the technical aspects of cultivation determined by the Department of Agriculture;</p> <p>b. KUD managers have received education and training, and their business activities have been running in accordance with the stages of estate development;</p> <p>c. The fulfilment of the above requirements must be in accordance with the results of an assessment of the Team formed by the Department of Agriculture and the</p> |
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|   |      |  | <p>Department of Cooperatives and Small Business Development;</p> <p>d. In the event that the crops do not meet the technical cultivation requirements, nucleus companies can help improve them or the handover can be carried out with reduction of the loan burden in accordance with the agreement between the KUD, the Nucleus Company and the Implementing Bank.</p> <p><b>Partnership Relationship Between Nucleus Companies and KUDs: (Article 9)</b></p> <p>a. KUDs carry out its activities in partnership with nucleus companies;</p> <p>b. The partnership between nucleus companies and KUDs is adjusted to the stages of plasma estate development;</p> <p>c. The partnership between nucleus companies and KUDs must be outlined in a written cooperation agreement which sets out the rights, obligations and sanctions, and must be guided by the agreement and other applicable partnership provisions and acknowledged by the local Regent;</p> <p>d. The partnership is implemented and managed in a clear, open manner;</p> <p>e. KUDs are offered an opportunity to buy and/or own shares in partner nucleus companies in stages with the nominal share value and the proportion in accordance with the applicable agreement and provisions.</p> |
| 7 | 1999 | Ministerial Decree of Forestry and Plantations No. 107 of 1999 on the Licensing of Plantation Businesses | <p><b>Size of Large Plantation-Scale Area (Article 4)</b></p> <p>a. The maximum land area for large plantation businesses, except for sugar cane plantations, is 20,000 hectares in one province or 100,000 hectares throughout Indonesia;</p> <p>b. The maximum area of sugarcane plantation business is 60,000 hectares in one province or 150,000 hectares throughout Indonesia;</p> <p>c. The maximum area of large plantation business in Papua Province is twice the maximum area of large plantation business in other provinces as referred to in letters a and b above.</p> <p><b>Plantation Business Development Schemes (Article 6)</b></p> <p>Plantation companies develop their business through one of the 5 (five) Development Schemes, namely:</p>  |

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|   |      |   | <ul style="list-style-type: none"> <li>a. The Plantation Business Cooperative Scheme, that is, a development scheme in which 100% of the shares are owned by the Plantation Business Cooperative;</li> <li>b. The Cooperative-Investor Joint Venture Scheme, that is, a development scheme in which 65% of the shares are owned by the cooperative and 35% are owned by the investor/company;</li> <li>c. The Investor-Cooperative Joint Venture Scheme, that is, a development scheme in which 80% of the shares are owned by the investor/company and at least 20% are owned by the cooperative, which is gradually increased;</li> <li>d. The BOT (Build Operate and Transfer) Scheme, that is, a development scheme in which the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred to the cooperative;</li> <li>e. The BTN (State Savings Bank) Scheme, that is, a development scheme in which the investor/company establishes the estates and/or mills which will then be transferred to interested parties/owners who are members of a cooperative.</li> </ul> <p><b>Partnership Obligations to Large Plantations (Article 15)</b><br/>Every company which has obtained the IUP is obligated (among others) to partner with cooperatives, and small and medium businesses.</p> |
| 8 | 2002 | Ministerial Decree of Agriculture No. 357 of 2002 on the Licensing of Plantation Businesses | <p>Obligations of plantation companies to incorporate plantation farmers (Article 8)</p> <ul style="list-style-type: none"> <li>(1) Any plantation business development must incorporate plantation farmers.</li> <li>(2) The development as intended in paragraph (1) can be carried out in various schemes, namely: <ul style="list-style-type: none"> <li>a. The Plantation Business Cooperative Scheme, that is, a development scheme in which the business capital is 100% owned by the Plantation Business Cooperative.</li> <li>b. The Cooperative-Investor Joint Venture Scheme, that is, a development scheme in which 65% of the shares are owned by the cooperative and 35% owned by the investor/company.</li> <li>c. The Investor-Cooperative Joint Venture Scheme, that is, a development</li> </ul> </li> </ul>  |

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|   |      |  | <p>scheme in which 80% of the shares are owned by the investor/company and at least 20% are owned by the cooperative, which is gradually increased.</p> <p>d. The BOT (Build, Operate and Transfer) Scheme, that is, a development scheme in which the investor/company sets up and operates the estates and, after a certain period of time, the estates and their management are transferred the cooperative.</p> <p>e. The BTN (State Savings Bank) Scheme, that is, a development scheme in which the investor/company establishes the estates and/or mills which will then be transferred to interested parties/owners who are members of a cooperative.</p> <p>f. Other development schemes which are mutually beneficial, mutually empowering and interdependent.</p> <p>(3) The development schemes as intended in paragraph (2) can be implemented in combination, and adapted to the local socio-cultural situations and conditions.</p> <p>Requirements for obtaining the plantation business licence/IUP: (Article 10)</p> <p>One of the requirements for obtaining the IUP is attaching a statement regarding which development scheme to be adopted, which is made in a notarial deed.</p> <p><b>Obligations of Plantation Companies which have obtained the IUP: (Article 19)</b></p> <p>One of the obligations which must be complied with by plantation companies having obtained the IUP is to develop and empower local communities and cooperatives.</p> <p><b>Sanctions of Revocation of IUP (Article 21)</b></p> <p>Failures to meet the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP.</p> |
| 9 | 2007 | Ministerial Decree of Agriculture No. 26 of 2007 Guidelines for the Licensing of Plantation Businesses | <p>The Obligation of Plantation Companies to Build Estates for the Surrounding Community (Article 11)</p> <p>(1) Plantation companies obtaining the IUP or the IUP-B are obligated to build estates for the surrounding community, the extent of which should be at least 20% (twenty</p>  |

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|    |      |   | <p>percent) of the total estate area under the licence.</p> <p>(2) The development of estates for the surrounding community as intended in paragraph (1) can be carried out, among others, through a loan, grant or profit sharing scheme.</p> <p>(3) The development of estates for the surrounding community as intended in paragraph (1) is carried out simultaneously with the development of the companies' estate.</p> <p>(4) The plan to develop estates for the surrounding community as intended in paragraph (1) must be acknowledged by the Regent/Mayor.</p> <p><b>Requirements for obtaining the IUP (Article 15)</b><br/>One of the requirements for obtaining the IUP is a statement of willingness to build estates for the surrounding community in accordance with Article 11, accompanied by a work plan.</p> <p><b>Requirements for obtaining the IUP (Article 17)</b><br/>One of the requirements for obtaining the IUP is a statement of willingness to build estates for the surrounding community in accordance with Article 11, accompanied by a work plan.</p> <p><b>Obligations of Plantation Companies which have obtained the IUP: (Article 34)</b></p> <p>One of the obligations of plantation companies having obtained the IUP is to develop and empower the local community and cooperatives.</p> <p><b>Sanctions of Revocation of IUP (Article 38)</b></p> <p>Failures to meet the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP and a proposal submitted to the relevant authority to revoke the company's HGU</p> |
| 10 | 2013 | Ministerial Decree of Agriculture No. 98 of 2013 on Guidelines for the Licensing of Plantation Businesses, as amended twice and most recently by Ministerial Decree of Agriculture No. 21 of 2017 | <p><b>Some Definitions</b></p> <ul style="list-style-type: none"> <li>Perkebunan Inti Rakyat-Perkebunan (PIR-BUN/NES-Plantation) is a plantation development scheme using large plantations as the nucleus, which helps and guides the surrounding people's estates in a mutually beneficial, complete and sustainable cooperation system.</li> <li>Perkebunan Inti Rakyat-Transmigrasi (PIR-TRANS/NES-Transmigration) is a</li> </ul>   |

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|  |  |  | <p>plantation development scheme using large plantations as the nucleus which helps and guides the surrounding people's estates in a mutually beneficial, complete and sustainable cooperation system, which is integrated with the transmigration program.</p> <ul style="list-style-type: none"> <li>• Perkebunan Inti Rakyat-Kredit Koperasi Primer untuk Anggota (PIR-KKPA/NES-Primary Cooperative's Loan for Members) is a NES scheme in which primary cooperatives provide loan facilities for the members.</li> </ul> <p><b>Obligations of Plantation Companies to Build Estates for the Surrounding Community (Article 15)</b></p> <ol style="list-style-type: none"> <li>(1) Plantation Companies applying for the IUP-B or IUP licence with an area of 250 (two hundred and fifty) hectares or more, are obligated to facilitate the development of estates for the surrounding community, the extent of which is at least 20% (twenty percent) of the IUP-B or IUP area.</li> <li>(2) The community's estates as intended in paragraph (1) are situated outside the IUP-B or IUP area.</li> <li>(3) The obligation to facilitate the development of estates for the surrounding community as intended in paragraph (1) takes the following into consideration: <ol style="list-style-type: none"> <li>a. the availability of land;</li> <li>b. the number of families in the IUP-B or IUP immediate area who are eligible to participate; and</li> <li>c. the agreement between the nucleus company and the surrounding community, which is acknowledged by the head of the provincial or district/city Plantation Service according to his/her authority.</li> </ol> </li> <li>(4) The surrounding community members who are eligible to participate as intended in letter b are: <ol style="list-style-type: none"> <li>a. those whose land is used for the estate development and who have low incomes in accordance with the legislation;</li> <li>b. those who reside around the IUP-B or IUP area; and</li> <li>c. those who are able to manage their estate</li> </ol> </li> </ol> |
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|  |  |  | <p>(5) Members of the surrounding community who are eligible to participate as intended in paragraph (4) are determined by the regent/mayor based on the nomination from the local sub-district head.</p> <p>(6) The implementation of the estate development for the surrounding community by companies obtaining the IUP-B or the IUP, which includes the planning, compliance with the obligations, and business sustainability, is accompanied and overseen by the governor or regent/mayor in accordance with his/her authority.</p> <p><b>Obligations to Facilitate the Development of Estates for the Surrounding Community (Article 16)</b></p> <p>(1) The obligation to facilitate the development of estates for the surrounding community as intended in Article 15 is carried out by utilizing loan, profit sharing schemes and/or other forms of funding in accordance with the agreement and the legislation.</p> <p>(2) The obligation to facilitate the development of estates for the surrounding community as intended in paragraph (1) does not apply to legal entities in the form of cooperatives.</p> <p><b>Obligations of Plantation Companies Which Have Obtained the IUP: (Articles 21 and 23)</b></p> <p>One of the obligations that must be complied with by plantation companies which have obtained the IUP is to develop and empower the local community and cooperatives.</p> <p><b>Acquisition of plantation land, which is encumbered with collective rights of customary law communities (Article 24)</b></p> <p>In the event that the land used for plantation business is encumbered with collective rights (<i>hak ulayat</i>) of a customary law community, then in accordance with the legislation the applicant for a plantation business licence must first hold discussions to reach an agreement with the customary law community and the individuals holding the right to the land; the agreement must be expressed in an agreement document, which spells out the agreed handover and any compensation for it, and must be acknowledged by the governor or the regent/mayor according to his/her authority.</p> |
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|    |      |  | <p><b>Obligations of Plantation Companies after Obtaining the IUP (Article 40)</b><br/> One of the obligations of plantation companies is to facilitate the development of estates for the surrounding community at the same time as that of the company's estates; such development must be completed within a maximum of 3 years.</p> <p><b>Sanctions of Revocation of IUP (Article 51)</b><br/> Failures to comply with the obligation to develop and empower the local community and cooperatives can lead to the revocation of the IUP and a proposal being submitted to the competent authority for the revocation of the company's HGU.</p> <p><b>Transitional Provisions</b><br/> <b>Article 60</b></p> <p>(1) The provision as intended in Article 15 paragraph (1) does not apply to plantation companies which obtained a plantation business licence before 28 February 2007 and which have implemented the PIR-BUN, PIR-TRANS, PIR-KKPA schemes, or other nucleus-plasma partnership schemes.</p> <p>(2) Plantation Companies which do not implement the PIR-BUN, PIR-TRANS, PIR-KKPA schemes, or other nucleus-plasma partnership schemes as intended in paragraph (1) are obligated to carry out productive business activities for the surrounding community according to the local conditions based on an agreement between the company and the surrounding community, which is acknowledged by the governor or regent/mayor according to his/her authority.</p> <p>(3) The productive businesses as intended in paragraph (2) are those which can provide a source of livelihood for the surrounding community.</p> |
| 11 | 2015 | Ministerial Decree of Agriculture No. 26 of 2015 concerning Requirements, Procedures and SOPs for provision of technical recommendations for the Licensing of Agricultural Businesses in the context of capital investment | <p><b>Requirements for the granting of the licence to plantation business (IUP-Cultivation): (Article 12)</b><br/> Among the requirements are a work plan for the company's estate development, including a plan to facilitate the development of estates for the surrounding community, and a statement of capability to facilitate the development of estates for the surrounding community, which is accompanied by a work plan and a financing plan.</p>  |

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|    |      |   | <p><b>Requirements for the granting of the IUP (integration of plantation business with industries processing plantation products): (Article 14)</b></p> <p>Among the requirements are a work plan for the company's estate development, including a plan to facilitate the development of estates for the surrounding community, and a statement of capability to facilitate the development of estates for the surrounding community, which is accompanied by a work plan and a financing plan.</p>  |
| 12 | 2015 | Ministerial Decree of Agriculture No. 11 of 2015 on the Indonesian Sustainable Palm Oil Certification (ISPO) System | <p><b>Article 2</b></p> <p>(1) The Indonesian Sustainable Palm Oil Certification (ISPO) system is implemented on a mandatory or voluntary basis.</p> <p>(2) The mandatory ISPO as intended in paragraph (1) applies to:</p> <ol style="list-style-type: none"> <li>a. Plantation Companies that carry out plantation businesses integrated with processing businesses as stated in Appendix II, which is an integral part of this Ministerial Decree;</li> <li>b. Plantation Companies that carry out a plantation business or plantation businesses as stated in Appendix III, which is an integral part of this Ministerial Decree;</li> <li>c. Plantation Companies that carry out plantation product processing businesses as stated in Attachment IV, which is an integral part of this Ministerial Decree;</li> </ol> <p>(3) The voluntary ISPO as intended in paragraph (1) applies to:</p> <ol style="list-style-type: none"> <li>a. Plasma Estate Business whose land is excised from State's land reserves, Plantation Companies, community's estates or land owned by growers who obtain facilities through Plantation Companies for the development of their estates, as stated in Appendix V, which is an integral part of this Ministerial Decree;</li> <li>b. Independent Plantation Businesses whose estates are built and/or managed by the growers themselves, as stated in Appendix VI, which is an integral part of this Ministerial Decree;</li> <li>c. Plantation Companies producing palm oil for renewable energy which meet the requirements, as stated in Appendix II, which is an integral of this Ministerial Decree.</li> </ol> |

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| <b>13</b> | 2019 | Ministerial Decree of Agriculture No. 05 of 2019 on Procedures for the Licensing of Businesses in the Agricultural Sector | <b>Licensing of Plantation Businesses</b> |
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