



Potential State Revenues from the Natural Resources Sector and its Problems: Plantation Sector

Book 2 of 5

Potential State Revenues from the Natural Resources Sector and its Problems

Book 2. Plantation Sector

Author:

Gurnadi Ridwan

Editor:

Produced by:

Perkumpulan Inisiatif and the National Secretariat of FITRA

Supported by:

International Budget Partnership (IBP) and

The Ford Foundation



2017

Book 2 of 5

Potential State Revenues from the Natural Resources Sector and its Problems

Book 2. Plantation Sector

Instruments written in this book are part of the PROMOTING EQUITY ON THE REVENUE MOBILIZATION OF NATURAL RESOURCES IN FORESTRY, AGRICULTURE, PLANTATION, MARINE AND FISHERIES IN INDONESIA program.

(Initial Action)

Published by:

Perkumpulan Inisiatif and the National Secretariat of FITRA

Supported by:

International Budget Partnership (IBP) and The Ford Foundation

2017

Statement

Findings and instruments written in this book are private in nature, and may only be used for internal consumption, and not for the consumption of the public. This book cannot be reproduced without the consent of the publisher and/or author.

Foreword

Economic development requires a substantial tax base. Until now, the exploitation of natural resources, specifically revenue from nonrenewable sources such as mining, oil, and gas, serves as a major source of state revenue. At the same time, state revenues from the exploitation of relatively renewable natural sources including agriculture, plantations, forestry, and fisheries have received less attention and their revenue potential has not been maximized.

This book is one of the reports documenting the efforts made by civil society groups to (1) estimate the revenue generating potential of natural resources; (2) describe the governance in the sectors studied; and (3) identify the reasons for low revenue collections in the agriculture, plantation, forestry, and fishery and marine sectors. The report is designed to increase understanding of the sectors' potential, governance, and revenue issues so that in the future civil society can help contribute to increasing revenue collections from these four sectors.

This book is the second of five books, and is divided into two parts. First, an introduction, and second, the findings of the study.

Table of Contents

Foreword.....	4
Table of Contents.....	5
1. Introduction to the Sector	6
2. Case Study	6
2.1. Kendal Regency, Central Java Province.....	6
2.2.Bojonegoro Regency, East Java Province.....	8
2.3. Donggala Regency, Central Sulawesi	9
2.4. Bulukumba Regency, South Sulawesi	11
2.5. Central Lombok Regency, West Nusa Tenggara Province.	13
2.6. Kutai Kartanegara Regency, East Kalimantan Province	16
2.7. Conclusion.....	17

1. Introduction to the Sector

The livelihoods of many Indonesians rely on the exploitation of natural resources. Based on Perkumpulan Inisiatif's study into state revenues, in 2014 only 7.8 % of state revenues originated from the non-oil/gas natural resource sectors, where 0.4 % was generated from non-tax sources, and 7.4 % originated from taxes.

The forestry sector contributed 0.3%, the fishery sector contributed 0.02%, and the agriculture and plantation sector contributed 7.5% of state revenues. In relation to the Gross Regional Domestic Product (GRDP), state revenues from non-gas/oil natural resource sectors are miniscule in proportion compared to other sectors, not to mention when compared to the extent of area managed by these sectors.

Economic development requires a substantial tax base. Until now, the exploitation of natural resources, specifically revenue from nonrenewable sources such as mining, oil, and gas, serves as a major source of state revenue. At the same time, state revenues from the exploitation of relatively renewable natural sources including agriculture, plantations, forestry, and fisheries have received less attention and their revenue potential has not been maximized.

One of the many reasons why revenue collections are low are violations occurring in the natural resources sector, which in addition to being detrimental to state revenues, directly affect communities. In the plantation sector, indications have shown that many oil palm companies clear lands without the appropriate permits or operate without paying the obliged taxes to the government. In addition, land clearing activities to open up land for oil palm plantations often causes conflicts with local people. If local people are involved in the supervision of such activities, in addition to avoiding conflict, losses in state revenue can also be avoided.

The results of this study estimate potential revenues collections (tax and non-tax) from the plantation sector from both privately and state-owned plantations exceeding 25 hectre. In addition, this study also discusses the issues that lead to losses of potential revenue. This study was conducted in 7 regencies, namely: Kendal District (East Java), Bojonegoro (Central Java), Donggala (Central Sulawesi), Bulukumba (South Sulawesi), Central Lombok (NTT), Kutai Kartanegara (East Kalimantan), and Kabupaten Way Kanan (Lampung). The selection of the seven regencies was based on their diverse characteristics and production types in hopes of representing Indonesia as a whole. These areas were also selected based on the presence of CSO (civil society organizations) which facilitated access and data collection.

2. Case Study

2.1. Kendal Regency, Central Java Province

A. Potential Revenue

The Regency of Kendal is one of the 35 regencies/cities located in Central Java province. Kendal Regency is widely regarded as an agricultural area as indicated by the vast lands utilized for

agriculture. Of the total land area in Kendal regency, 26% is utilized for rice paddy fields, 20% as crop fields, and 8% as plantations.¹

PT PN IX (Perseroan Terbatas Perkebunan Nusantara Sembilan) Kebun Merbuh was chosen as a case study for the Kendal regency. This company is located in Trayu Village of the Boja district. PT PN IX has a main product of rubber, and is currently in the process of changing the products managed from crop plants to sugar cane. Pt PN IX produces semi-finished rubber which is stored in a warehouse. The revenue for PT PN IX reached 1,053 billion with losses amounting to 115.13 billion and has total assets of 4.585 billion rupiah.² With losses reaching Rp.115 in 2015, PTPN IX has no dividends (profit sharing) and not subject to taxes. The following is the extent and tonnage of PTPN IX in 2015:

Commodity	Rubber	Tea	Coffee	Sugar Cane
Area	25.601,69 Ha	1.316,98 ha	Kopi 963,63 ha	22.851,46 ha ³
Ton	26.038 ton	1.377 ton	534 ton	99.440 ton

Source: Annual report of PT PN IX

B. Findings in the Field

An interview with a former employee of PT PN IX, revealed of various practices that had negative effects on the revenue generated by PT PNIX. These practices are the main sources of revenue loss, specifically from the company's net profit tax obligations. The modes that occur are as follows:

1. Mark-up and manipulation of work days (HOK) in planting, maintenance, and tapping activities. Manipulation in the form of differences between the work days and amount of people working with its realization. This practice occurs in the utilization of wholesale work systems that employs temporary and permanent workers.
2. The use of the company's fuel (petrol or diesel) is not only for company vehicles, but also for individual worker's use, causing overspending in fuel.
3. Plantation workers are often utilized for personal uses such as housework and car reparation, but are paid through the company.

In addition to manipulation and misuse of authority, there were also practices that caused production to not be optimal, such as:

1. The illegal sale of Trembasu, remnants of rubber tapping that drips and remains on the containers. Usually rubber tapping is conducted on Sunday from 04.00 to 07.00. If the condition of the rubber latex is good, rubber tapping activities continue until 10.00. If overtime is not conducted then the rubber latex is left to drip and harden on the container, these remnants still hold some economic value and are therefore utilized and sold illegally. The proper management of trembasu would increase the company's revenues.

¹ Potret Wilayah Kabupaten Kendal 2015. Regional Development Planning Agency of Kendal regency.

² Annual report of PTPN IX 2015

³ Tebu PTPN IX 165,81 ha dan tebu rakyat 22.685,46 ha

2. The utilization of improper fertilizer. Fertilizer that should be used is non-subsidized fertilizer, but in reality the fertilizer used is subsidized fertilizer. Many stored fertilizers are also lost or stolen, and sold again. The impact of the improper use of fertilizer is the not optimal production of rubber latex.
3. There are embezzlements of unproductive rubber tree sales (cut down trees), and the sales of rubber seeds to local farmers. Actors involved in these activities are field supervisors, HTO (Hoofd Tuin Opziener), administrative staff, and other high ranking officials.

In addition, there are also violations in regulations and permits such as:

1. The area of land permitted to PT PN IX Afdeling Kalipat through business rights was 129.71. This area has been fully utilized since 2005, but operations are still continued thus violating regulations stating that if conflicts with local communities occur then operation of the company must be stopped.
2. Other practices include the exploitation of unpermitted lands such as in 1999-2000 when an unpermitted area of around 458 ha was utilized by PT PN IX. There was also the utilization of 80 ha of unpermitted areas in Banyuringin village. Even though this has been brought to court and its case won by the community, PT PN IX has ignored the decision of the court.
3. Tax evasion in the form of the utilization of larger areas than those permitted by the business rights (HGU) issued. This practice starts with a mark-up of the number of plants being used, therefore extending planting activities to non-HGU lands.

2.2. Bojonegoro Regency, East Java Province

A. Potential Revenue

The regency of Bojonegoro is administered into 28 districts and 430 villages/neighborhoods. Agricultural areas are generally planted with rice in the rainy season, and tobacco in the dry season. Bojonegoro regency has 22 rain collecting stations spread in 15 districts. To overcome the shortage of water for irrigation purposes in the dry season, water from Sungai Bengawan Solo is raised with the help of pumps spread over 8 districts covering 24 villages.

Plantation fields in the regency consists of 8,424 hectares of coconuts, 1,382 hectares of Kapok, 92 hectares of *jatropha curcas*, 2 hectares of cloves, and 12,333 hectares of tobacco. Tobacco plantations consist of 9,441 hectares of Virginia tobacco and 2,892 hectares of Java tobacco.⁴ Production of Virginia tobacco reached 19,764 hectares while production of Java tobacco reached 8,531.6 for the wet variety and 1,536.6 tons for the dry variety. Production of ram tobacco reached 1,972.5 tons/year for the wet variety and 295.5 ton/year of the dry variety. Therefore, total production of the wet variety came to 30,267.8 tons, and the dry variety amounting to 4,993.7 tons a year.

The case study selected for further analysis in Bojonegoro Regency was the tobacco plantation industry. This selection was based on the tobacco industry's easy access and the network of companies that made it possible to investigate their operations. Based on the findings in the field,

⁴ Bojonegoro Regency in Numbers 2013.

the potential of the plantation sector is very large, unfortunately there are no good regulations in governing the management of taxation by the local governments. Whereas is the regional regulation no. 26 of 2011 on regional spatial plans 2011-2031, the plantation sector was mentioned although generally and scarcely. It seems as though the regency still relies on the oil and gas sector to contribute to local revenue.

B. Findings in the Field

The study did not find violations occurring in the plantation sector by government officials, this is because local governments do not manage the tobacco plantation sector, and therefore are not very attentive towards the sector.

Issues of permits and levies conducted by the government towards the tobacco plantations are absent because there are no such permits and levies for the tobacco plantation industry. This is caused by the lack of regulations concerning the levies and permits on the tobacco industry by the local government.

Although no indications of tax evasion have been found, there are violations in the use of aid by the government officials and actors of the plantation industry, such as:

1. When providing aid in the form of equipment for tobacco processing, the department of agriculture requested remuneration in the form of transport fee in the range of 500,000 to 1,000,000 rupiah.
2. Favoritism is showed in providing aid to those having good relationships with the local government, whereas small farmers have difficulty obtaining aid.
3. Aid for the procurement of tractors is only used by the head of the group and small farmers are forced to borrow tractors.

2.3. Donggala Regency, Central Sulawesi

A. Potential Revenue

The Donggala province has an area of 5,275.69 km² and is divided into 15 districts with the Rio Pakava district being its largest at 872.16 km² and the district of Banawa being its smallest with 74.64 km² of land. The plantation sector represents a mainstay for the regency as most of its population deals in the plantation industry.

The typical plantation plant in Donggala Regency is palm oil. For the community, palm oil has a high selling power. The presence of companies that are ready to accommodate the crops of oil palm farmers is also an added value of the industry. The local communities have independently planted oil palm since 2003, where previously they planted citrus and cocoa. The table below presents the plantation commodities in Donggala District in 2014:

Commodity	Coconut	Cacao	Coffee	Oil Palm	Clove	Pepper	Cashew
Tons / year	27.257	19.075	360	10.956	1.454	58	161

Source: BPS (Bureau of Statistics), Donggala Regency in Numbers 20145

⁵ *Donggala Regency in Numbers 2014*

In the Donggala Regency, the study of the plantation sector was focused on companies and plantation farmer cooperatives having the potential to contribute taxes and non-tax revenues. The following are 4 companies operating in the Donggala Regency:

No	Company	Area of Land (Ha)	Commodity	Core (Ha)	Plasma (Ha)	Location
1	PT. Lestari Tani Teladan	5.667	Oil Palm	5.200	1200	Rio Pakava District
2	PT. Gatra Nusantara Sejati	8.500	Oil Palm			Rio Pakava District
3	PT. Agro Mas Perdana	20.000	Oil Palm			Sindue, Sindue Tobata, and Sirenja Districts
4	PT. Citra Karya Sawit	14.327	Oil Palm			Damsol, Sojo, and North Sojol District
TOTAL		48.494				

Source: WALHI Central Sulawesi data recapitulation 2015

One of the oil palm companies operating in the Rio Prakava district is PT. LTT (Lestari Tani Teladan). Out of a total area of 5,667 hectares, 5,200 hectares are considered core areas whereas 467 hectares are considered nonproductive areas. In addition, one irregularity in this data is the division of core and partnership areas. Based on previous studies, the local community claimed that there was an absence of partnership areas in the district. A partnership area is an obligation that must be fulfilled by the company as a condition of obtaining a plantation permit. This provision requires 20% of the owned land to be provided for the community.

Based on an interview with the coordinator of agricultural extension agency (BPP), the agricultural sector in the district generally consists of: Horticulture and Palwija (10%), plantation (80%), and livestock breeding (10%). Plantations are dominated by oil palm, cocoa, and coffee. In 2017, the government made an effort to clear land for the planting of corn as part of the food security program. If we sample this district alone, from 100% of plantations, only 10% are regulated by the government, possess clear organizational structure, and have a tax identification number. Improved regulation of these actors, along with the development of cooperatives, could increase regional revenues from the plantation sector. Farmer groups own around 17,000 to 18,000 hectares of land for oil palm plantations in Rio Prakarya district.

From the data provided by the treasurer of Gapoktan Minti Makmur village related to the tax payment in 2017, the area of land that became the basis of property tax in the village was 11,670,732 hectares with taxes due amounting to IDR 19,156,186. There is an imbalance of land ownership in the village as several individuals own more than 20 ha and others own less than that. A large obstacle in the payment of taxes is the difficulty of finding the taxpayer who is often away from the village. Fees for late payments are also ignored. Income taxes have yet been implemented in the village and is a potential source of local revenue in the future.

As a whole, the amount of land utilized by farmers and recorded by the gapoktani (Farmer's group) is 1,500 hectares. These lands consist of 142 hectares of paddy fields, 100 hectares of corn

fields, and the rest being oil palm plantations (1,500 hectare-142 hectare-100 hectare) amounting to 1,258 hectares. This only lands within the borders of Minti Makmur village and excludes the lands owned outside of the village.

B. Findings in the Field

Based on the findings in the field in Donggala Regency, potential tax collections and the losses in the plantation industry are still unclear. The insolvency of companies, poor infrastructure, and the large areas of oil palm plantations make it difficult to investigate and trace data. However, based on a review of documents in 2015 it was revealed that permits of companies were not complete. The data from these permits is as follows:

No.	COMPANY	PERMITS OBTAINED			Information
		LOCATION PERMISSION (INLOK)	PLANTATION BUSINESS PERMIT (IUP)	HGU (Business Rights)	
1	PT.Lestari Tani Teladan		No.0134/503/Bun-Hut	47/HGU/BPN/1994	Absence of INLOK
2	PT.Gatra Nusantara Sejati	188,45/0359/Bag.adm.PUM Tgl. 2 AugustT2010	No.188,45/0114/KT Tgl. 17 January 2013		Absence of HGU
3	PT. Agro Mas Perdana	188,45/0224/KTP/III/2012 Tgl. 19 March 2012			Absence of IUP and HGU
4	PT. Citra Karya Sawit	188,45/0289/KTP/IV/2013 Tgl. 23 April 2013			Absence of IUP and HGU

Source: Walhi of Central Sulawesi (Companies in Donggala regency 2015)

If a company lacks the proper permits, its economic activities can be deemed illegal. These violations can provide a source of state or local revenues.

2.4. Bulukumba Regency, South Sulawesi

A. Potential Revenue

The Regency of Bulukumba has an area of 1,154.7 km² or 2.5 % of the total area in South Sulawesi and covers 10 districts divided into 27 sub-districts and 109 villages. Gantarang and Bulukumba are the largest districts in the regency with areas of 173.51 km² and 171.33 km² respectively, approximately 30% of the area of the regency. Meanwhile, the district of Ujung Bulu was the smallest with 14.4 km² of land. Bulukumba Regency has around 32 riverways that water 23,365 hectares of rice paddies, and is therefore a potential area for agriculture.⁶ Based on BPD data of 2013, the regency has plantation areas spread across 10 districts such as shown below:

Commodity	Rubber	Coconut	Clove	Coffee	Pepper	Nutmeg	Cacao	Cashew
Area (Ha)	2.320	12.767	5.080	5.152	1.383	311	7.591	1.259
Tons/ year	1.214	2.383	857	2.766	240	25	6.101	263

⁶ Bulukumba Province in Numbers 2013

In Bulukumba regency, PT PP Lonsum (London Sumatra Indonesia) was used as a case study. Based on the findings in the field, there were conflicts between the local community and the company. One of them was the seizure of land by the company in the form of planting rubber seeds on lands owned by the local people. PT Lonsum was alleged to have also evaded taxation.

PT Lonsum has an area of 578,461 hectares of land in Palangisang and Balombessie districts. Its lands are divided into a productive area of 2,191.79 ha (plants aged 5 to 25 years), unproductive lands of 555.59 ha (containing plants aged 2 to 5 years), other lands amounting to 645.76 ha as supporting facilities and factory, and streets amounting to 193.28 ha.

The average production of PT Lonsum, reaches 15,000 tons of dry rubber latex (2016). On average it is sold for 15,000 rupiah/kg. Targeted markets for the company are Asia, America, and Europe. The number of permanent workers employed by the company is 1,238 and there are 316 temporary workers. Local residents of Bakulumba Regency are 85.2% of the workforce.

B. Findings in the Field

Based on the findings in the field, there is a disparity between the HGUs owned and the lands exploited by the company. Based on the HGU held by the company, it was permitted to exploit 500 hectares of land, but according to the local community, about 15,000 hectares of land are planted with rubber of trees. This number originated from estimates made by driving a car through the production area and calculating its area based on the distance needed to drive from the opposite sides of its borders. This is a difference in 10,000 ha that is not permitted for production. According to local villagers, the company also owes taxes to the state.

In addition to tax and land right issues, the company also has an issue with AMDAL (Environmental Impact Assessment) regarding the location of waste storage in close vicinity to a river that overflows and spews into the river during heavy rain thus causing death to fisheries owned by local villagers.

Workers in the company are obliged to reach a target of 400 rubber trees per day, while only having the capacity of to reach 250 rubber trees per day, with a work day lasting from 4 am to 6 pm in the evening. To meet that target, workers often bring additional help (wife or kids), but wages of 1 million rupiah are still paid only to the hired individuals and not for the additional helpers. If workers are unable to reach the targets set, they risk a reduction in wages or being let go. In addition, it turns out that only a few workers are accepted from the surrounding area. Cattle owned by villagers are also prohibited from entering the plantation area and villagers are charged a fine of IDR 500,000/cattle if found, although local regulations only charge a fee of 50.00 rupiah/cattle.

The company has a CSR, but only two villages, Tamatto and Balleanging, receive that aid. Villagers are also in the dark in relation to their right to receive aid as there are no clear data published on the company's CSR. People outside of the government believe that there is collusion between the company and the government. The head of the village receives a payment from the company of IDR 400,000/month. Thus far the location of the plantation is protected by armed Mobile Brigade Corps on the basis that there are often conflicts, although in reality they are paid by the company.

Based on the public relations officer's information, PT Losum has complete permits related to all operations conducted by the company. It has an IUP license from the Investment Coordinating Board of no. 701/T/Perkebunan/1999 dated December 28, 1999. However, PT. Lonsum does not have IUP-B because the company is not classified as a cultivation plantation. PT Lonsum also does not have IUP-P because the company does not process plantation products, but sells them directly. It has an AMDAL license no. 196/KHL/XII/2007 and has been agreed on in the implementation of RKL by Head of Environment Office Bulukumba. It owns a permit from environmental monitoring that was conducted, (LepI) no. 196/KHL/XII/2007 dated 11 December 2007. It has other permits, including HO 0727/KP2T/XI /HO/2013 permission from HGU/IBN/PI/1997; a TPS Permit. LB3 No. KPT/472/2012; a Clinic Permit, No. 18 / PKM; a Building Establishment Permit, No. 21/ IMB/II/2017.Izin Amdal RKL.RPL. No. 196 / KHL / XII / 2007 dated 11 December 2007; a nurse permit no. 065/07.04 / 1.2 / SIPP / IX / 2003; Electrical Installation Permission, No. 560/222/SostekLinkes/2007; and a Lightning Protection Permit. No. 560/SostekLinkes/ 2010.

2.5. Central Lombok Regency, West Nusa Tenggara Province.

A. Potential Revenue

The Investment Coordinating Board (BKPM) revealed that tobacco is one of the leading commodities in the plantation sector of NTB. Based on data held by NTB Plantation Department, the potential of Virginia tobacco production on the island of Lombok reached 48,000 tons or 95% of the total national Virginia tobacco demand of 50,000 tons per year. The potential of Virginia tobacco planting areas on Lombok Island reached 58,516 Ha, with 10,098 Ha in West Lombok, 19,263 ha in Central Lombok Regency, and 29,154 ha in East Lombok Regency. However, in reality the area encompassed by tobacco plantations in 2015 is approximately 20,000 ha. While in the 2016 planting season, NTB Plantation Department reported that the area of Virginia tobacco planted by farmers under 13 cigarette companies reached 15,000 hectares, with a production potential of 30,000 tons or an average of 2 tons per hectare. In 2015, Department of Plantation in NTB recorded that the production of Virginia tobacco in Lombok amounted to 29,965 tons. Actual purchases by partner companies amounted to 29,887 tons. The plantation crops and types of plants in East Lombok in 2015 are listed below:

Commodity	Land Area	Production
Virginia Tobacco	12.361,2	19.908,2
Community Tobacco	3.385,7	2.566,0
Coconut	12.534,7	5.347,4
Coffee	2.043,5	441,74

Source: BPS of East Lombok, 2016

To meet the domestic needs of Virginia tobacco seeds and reduce the import of seeds, PT Benih Emas Indonesia (BEI) produced three varieties of seeds of Virginia tobacco in Central Lombok. Each hectare of land requires up to 8 grams of seeds. The development of these varieties is carried out at a 5-hectare plot owned by the NTB provincial government in Puyung, Central Lombok in cooperation with the NTB Agriculture and Plantation Department. Production capacity in 2016 is still relatively small, i.e. 1.5 quintal seeds. With these hybrid seeds, tobacco production is projected to increase to 2 tons per hectare in comparison to the average production of farmers on the island of Lombok of 1.8 tons per hectare. Currently, Virginia tobacco seeds

developed in Indonesia, including Lombok, are imported from Brazil. So far, the procurement of tobacco seed assistance using Tobacco Revenue Sharing Fund (DBHCHT) can be up to tens of billions of rupiah. By buying local seed products, funds allocated for seeds decreased to seven billion.

In order to regulate the plantation partnership business, the NTB provincial government has stipulated Perda no. 4 of 2006 on Virginia Tobacco Plantation Cultivation and Partnership in NTB. The partnership between plantation companies and Virginia tobacco planters is based on mutual benefit, mutual respect, mutual responsibility, mutual reinforcement, and interdependence. The types of partnerships conducted include providing production facilities, production cooperation, processing, and other supporting services.

In its practice, tobacco farmers plant tobacco seeds from seeds provided by their partner company. These seeds are planted in neat lines on lands with a slope of less than three to five percent. Large slopes cause water to flow too fast and cause a shortage of water causing tobacco leaves to shrivel and open poorly.

Every hectare of land requires 14,500 seeds. Every seed produces 18 leaves which are equal to 1.3 kg. Therefore, the potential production of tobacco comes to 18,850 kilograms of wet leaves per hectare.⁷

After harvest, tobacco farmers bring their products to a storage facility for transaction with the company. It is estimated that the money circulating in tobacco farmers each day reaches IDR 6 billion during every harvest season. In the Djarum Tobacco Center warehouse, there are 400 workers, dominated by male workers. Some sort tobacco and wrap it with pandanus mats. Tobacco leaf sheets are dried in a giant oven and afterwards are transported using a kind of trolley and loaded into a truck. Finally, fully loaded trucks travel to Java Island, specifically to Kudus, to be manufactured into cigarette bars since there are no cigarette factories in Lombok. Cigarette factory warehouses in Lombok are an extension of cigarette factories in Java.

The emergence of the partnership program in the tobacco plantations of Lombok affects two tobacco farmer groups: trained farmers and independent farmers.⁸ In addition, there are also oven farmers. Independent farmers were often faced with unstable prices and the uncertainty of their products being absorbed by the market. The government also had little data on areas owned by these independent farmers and the potential they hold. Companies have also limited themselves to absorbing the tobacco of trained farmers.⁹ Even these trained farmers are not devoid of issues, the grading system of the company usually becomes an obstacle for farmers, as their estimates for the price of their tobacco often do not match the companies' prices based on

⁷ STN NTB, Determination of Lowest Purchase Price by Government Is an Absolute to Protect Tobacco Farmers, May 14, 2010, <http://tanintbbergerak.blogspot.co.id/2010/05/penentuan-harga-dasar-pembelian.html>.

⁷ Discussion with, Dwi Ari Santo (researcher of SOMASI NTB) in Mataram on the 8th of May 2017, who has conducted research on conflicts between tobacco farmers and companies in 2003, when he was college student.

⁹ Mataram News, Tobacco farmers in NTB are anxious, The Governor's Decree is ignored by the Collecting Company, 10 September 2012, <https://www.mataramnews.co.id/nusa-tenggara-barat/item/1598-petani-tembakau-di-ntb-resah-sk-gubernur-tak-digubris-pihak-perusahaan-pengumpul>.

the grading system applied. Facilities given to trained farmers by partner companies and the government are:

1. Counseling and guidance from companies and governments using DBHCHT.
2. A loan of funds with an interest rate of 14% per year.
3. Guaranteed purchase of crops by partner companies according to the grade determined by the company.
4. Fuel conversion subsidies and tobacco oven stoves.
5. BPJS Employment (independent) with a premium of Rp 16,800 per month. The Head of BPJS NTB Employment Branch, Sudiono, said the 8,700 Virginia Tobacco farmers who registered were partners of a number of tobacco companies, categorized as non-wage workers from companies or employers. Benefits provided include the cost of transportation from the scene of the accident to the hospital, medical services, and compensation for a permanent disability. In addition, a death benefit is provided to heirs of 48 x Rp 1.4 million or MSEs, as well as scholarships for children left behind for Rp 12 million. Farmers who died from illness received compensation of Rp 18.4 million.

The tobacco marketing flow research conducted by Santoso et al. (1993) in East Java, Central Java and NTB revealed that large cigarette factories have their own well-established marketing networks from cigarette manufacturers (representatives) - rayon - rayon handlers - processors/farmers. So, the process of price setting is more in the form of an implicit contract transaction than a free market transaction. The main capital provider is usually a large cigarette factory or a wholesaler. In the contract, the position of the capital provider is strong so there is no bargaining process over the setting of the price. The price of tobacco is set with each trader starting from the price determined by the cigarette manufacturer, then down to the wholesaler / rayon, the collecting trader, the processor down to the farmer, each of which is reduced by the margin of the marketing fee and the profit earned at each step in the trading system. If the price of tobacco falls, farmers are the most disadvantaged (Djutaharta and Wiyono, 2006).¹⁰

State revenues received from the tobacco plantation industry are in the form of Excise of Tobacco Products (CHT). Although CHT is a large contributor to state revenues, there are indications of losses, which are sometimes caused by purchases that exceed the quota set in the beginning of the year. The following is the allocation of DBH-DHT in West Nusa Tenggara in 2013:

No.	Province/Regency/City	Allocation in 2013 (Rp)	%
1.	Nusa Tenggara Barat Province	62,867,143,079	30.0
2.	Bima Regency	10,272,609,737	4.9
3.	Dompu Regency	5,686,868,633	2.7
4.	West Lombok Regency	13,655,091,577	6.5
5.	Central Lombok Regency	24,553,646,584	11.7
6.	East Lombok Regency	55,632,237,624	26.5
7.	Sumbawa Regency	9,795,880,928	4.7
8.	Mataram City	14,118,727,957	6.7
9.	Bima City	4,088,690,378	2.0

¹⁰ Adillah Hasan, and others, *Kondisi Petani Tembakau di Indonesia: Studi Kasus di Tiga Wilayah Penghasil Tembakau*, LD-FEUI and TCSC-IAKMI, October 2008.

No.	Province/Regency/City	Allocation in 2013 (Rp)	%
10.	West Sumbawa Regency	3,513,477,687	1.7
11.	North Lombok Regency	5,372,769,408	2.6
Total		209,557,143,592	100.0

Source: PMK 181/PMK.07/2013 on the definitive allocation of DBFCHT in 2013.

B. Findings in the Field

Several companies have neglected to contribute to their respected regions, such as PT Bentoel and CV Trisno Adi. Therefore, the local revenue from contributions of companies only amounted to 1 billion rupiah as compared to a target of 2,5 billion rupiah in 2016. The local government's constraints in collecting payment include the absence of strict regulations which regulate the collection of company payments of Rp 100/kilogram of dry tobacco. Because tobacco is a commodity managed across districts, the authority is held by the provincial government.

In relation to the supervision of tobacco production, local governments have made a plan to assign two staff of the department of agriculture to each company. Many companies are not open to the idea and therefore this supervision is no longer present.

In addition, based on data of the agricultural and plantation inspectorate in 2017, there are regional losses reaching Rp. 146 million due to weak supervision of the procurement of goods, payment of workers, excess consumption payments, the lack of volume, and not matching reports and realizations. Currently, these companies turned in as much as Rp. 56 million and still owe 89 million rupiah.

2.6. Kutai Kartanegara Regency, East Kalimantan Province

A. Potensi Pendapatan

The Kutai Kartanegara province has an area of 27,263.10 km². Because of an expansion of the region, Kukar Regency grew to 18 districts. The eighteen districts are Samboja, Muara Jawa, Sanga-Sanga, Loa Janan, Loa Kulu, Muara Muntai, Muis Wis, Bangun City, Tenggarong, Sebulu, Tenggarong Seberang, Anggana, Muara Badak, Marang Kayu, Muara Kaman, Kenohan, Kembang Beard and Tabang. Kukar Regency has 11 rivers scattered in all districts, which are the main means of transportation besides land transportation. Mahakam River is the longest river with a length reaching 920 Km and is the main mean of transportation for most of the natural resources sector (minerals, coal, and other natural resources).

Plantation crops developed in Kutai Kartanegara include rubber, coconut, coffee, pepper, cloves, cocoa, and oil palm. The plantation business is divided into large government plantations, large private plantations, and smallholder estates. In 2015, the area of smallholder estate in Kutai Kartanegara reached 60,462 Ha with total annual production reaching 265,955 tons. Of the various plantation commodities, oil palm had the largest production with 225,942 tons or 85%. The largest production of palm oil is located in Kembang Janggut district, which produced 4,764 tons, followed by the Samboja district with 3,635 tons. The highest producer of rubber is the Marangkayu district with 1,912 tons, the largest producer of coconut is the Muara Jawa district with 1,775 tons and the largest producer of pepper is the Loa Janan district with 2,127 tons.¹¹

¹¹ Kutai Kartanegara in Numbers 2016.

The following table provides data regarding area, production, and plantation labor in Kutai Kartanegara Regency :

No	Main Commodity	Area of Productive Land	Total Area (Ha)	Produktion (Ton)	Plantation Workers
1	Karet	10,128	21,696	13,374	11,901
2	K. Dalam	6,737	8,554	6,436	4,602
3	K. Sawit	144,507	191,366	1,506,913	25,458
4	Kakao	59	161	21	64
5	Lada	3,965	5,428	4,763	3,338
6	Kopi	180	874	62	883
7	Kemiri	95	227	38	347
8	Aren	151	337	70	310
Total 2015		165,822	228,643	1,531,677	46,903
Year					
2014		100,582	223,653	1,251,471	45,134
2013		99,117	221,447	1,134,664	107,656
2012		94,401	207,953	492,781	119,705
2011		91,939	216,452	345,650	124.693

B. Findings in the Field

Based on the findings in the field, the issuing of HGU permits has not been completed, with PT PMM and PT PJA being the latest to operate without a completed license. When asked about the condition of the permits they revealed that the permits were still being processed. Therefore, the operations of these two companies can be deemed illegal as conditions of taxation are still unknown.

In addition to the legality of permits, conflicts with local communities have also occurred. Several conflicts stemmed from the seizure of land using the mafia and others stemming from the protests of local communities on the environmental harm plantation companies have. In addition to oil palm, other significant industries exploiting natural resources in Kukar Regency include the coal mining industry.

2.7. Conclusion

Based on the research conducted in 7 districts, the plantation sector has a rather large potential to increase regional or state revenues. It's just that non-transparent governance and monitoring makes it difficult to calculate and obtain the full amount of potential state revenues from plantation industries.

As in the Kendal Regency, when investigators conducted interviews and submitted a request for data from the companies, they were turned down under the pretext that when research is conducted there must be a permit in advance from the company's directors. Likewise, when researchers asked for access to data from the government or the agency, the concerned party cannot provide data and advised that the data be accessed directly from the companies concerned.

The weak regulation related to the collection of taxes and levies in the plantation sector is also a cause of the lack of revenue. HGU levies per 1 Ha only amounts to Rp 150,000 for 25 years. As in the Bojonegoro and Donggala Regencies, weak regulation of community empowerment and cooperatives causes the middle class actors in the plantation sector to be ignored. With good supervision and monitoring, it is possible that the plantation sector can be a solution to increase local revenue and to create local jobs.

Theft and embezzlement of goods and logistics of state-owned companies also have an impact on wasteful spending. This is often caused by the lack of supervision of actors in the company conducting these practices. As a result, this practice is eventually ingrained, unavoidable, and cannot be stopped.

In several regions such as in the Donggala, Kukar, Bulukumba Regencies, illegal uses of land outside permitted areas are also a form of state revenue loss. Especially when assessments of environmental impact have not been conducted, as potential funds needed to repair the damage done may be too high in comparison to the exploitation being conducted.

Therefore, it is necessary to involve communities or organizations around plantations in advocacy. Forms of advocacy that can document and calculate actual amounts of revenue owed are vital to a just system. Community advocacy around the plantation is expected to provide broad benefits, not only preventing revenue losses in the plantation sector but also indirectly increase state income.