

# REVENUE COLLECTION IN NON-EXTRACTIVE NATURAL RESOURCE SECTORS IN INDONESIA

## BRIEF: POTENTIAL STATE REVENUE FROM THE PLANTATION SECTOR AND ITS PROBLEMS

### BRIEF FACTS

#1 Producer of palm oil in the world

#2 Producer of copra in the world

#4 Producer of coffee in the world

Top 3 plantation crops in 2014 (thousand of tons): palm oil, 29,344.48; rubber, 3,153.19; and coconut, 3,031.31

Production of large palm oil plantations (2014): 18,661.2 tons

Growth in number of palm oil companies: 693 (2000) to 1,601 (2014)

Number of plantation crop households (2013): 11,835,944 households

The plantation (and forestry) sector only contributed 7.5 percent of total state revenues in 2014

### PLANTATION SECTOR IN INDONESIA

"It is because of this aroma that your nation colonizes our nation," Agus Salim told Prince Philip while attending the coronation of Queen Elizabeth II at Westminster Abbey Church in 1953. Cloves are just one of many spices produced in the archipelago that once ruled the world market. There are a number of other Indonesian plantation commodities that currently supply most of the demand and needs of the world.

Since the colonial era, the soil and water of the archipelago has provided fertility and generated wealth for the world. But this fertility and wealth has also brought calamity and misery for most of the people who live on these exploited lands. Like the aroma of cloves, the sweetness of sugar brings suffering to farmers in Java. The bitterness of coffee brought forced cultivation to the people of Priangan for decades. And the expansion of palm oil plantations in Sumatra and Kalimantan brought about complex environmental damage and has displaced tens of thousands of people from their homes and land. The plantation sector has a long history that is intertwined with Indonesia's political situation.

Indonesia is the historic home of a variety of plantation commodities. Currently, Indonesia is the number one palm oil producer in the world with production reaching 36 million tons. Indonesia ranks second in copra production at 515 thousand tons and ranks fourth in coffee with 10.9 million 60-kilogram sacks.

In addition to its global importance, the plantation sector also provides a major source of livelihoods for the Indonesian people. This can be seen from the number of households that depend on the sector to earn a living.

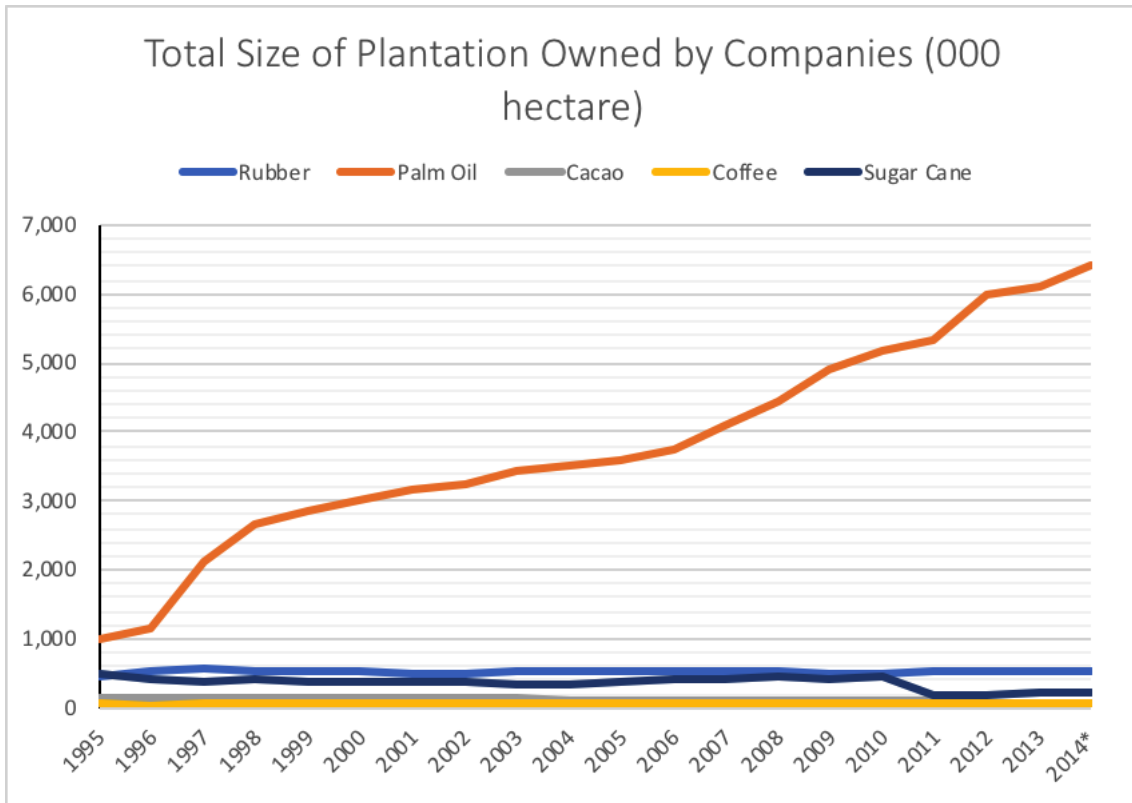
### Number of households and land area per household (2013)

Product Farmed	Number of Households	Planted Area (m <sup>2</sup> )	Area per Household (m <sup>2</sup> )
Cocoa	2,186,755	10,971,869,797	5.017
Rubber	2,888,542	45,420,938,147	15.725
Palm Oil	1,458,319	31,337,109,010	21.489
Coconut	5,090,583	12,423,185,278	2.440
Coffee	1,962,044	10,634,270,640	5.420

Plantations are managed by both individual households and plantation companies. Currently, palm oil companies dominate the country's



plantation sector. This reflects the dramatic rise in the use of palm oil products and their derivatives throughout the world. Between 2000 and 2014, the number of palm oil plantation companies increased by almost a thousand, from 693 companies in 2000 to 1601 companies in 2014. The land area cultivated for palm oil doubled during the same period,



from about 3 million hectares in 2000 to 6.4 million hectares in 2014.

During the colonial era plantations were an important source of revenue for the Dutch East Indies Government and the Kingdom of the Netherlands. This is no longer true today. In 2014, the plantation sector generated only IDR 192.92 trillion or 1.91 percent of Indonesia’s gross domestic product (GDP). This figure is small relative to the size and significance of the sector in the country’s economy.

## FINDINGS

This study includes: 1) an overview of the management of state revenues attributable to the regional plantation sector; 2) an estimate of potential state revenues that could be generated by the sector; 3) an analysis of possible losses due to manipulation and the practices and actors responsible for these losses; and 4) a review of other governance problems in the plantation sector. The research identifies a number of abusive practices that indicate significant management problems, as described below.

One example of the type of problems identified by the research comes from PT Perkebunan Nusantara (PTPN), a state-owned plantation company with the potential to generate significant state revenue collections and improve the public welfare. However, the research findings show that the very existence of PTPN is a problem. In a number of places, there are conflicts between the people living near PTPN plantations and the plantation company. Poor management practices have resulted in PTPN losing money, rather than generating a profit in some locations, such as in PTPN IX, which suffered losses of up to IDR 115 billion in 2015. Research suggests that this loss is due to improper mark

ups and manipulation of workers' time sheets, the use of company funds for the personal benefit of employees, theft of subsidized fertilizers that are resold by unscrupulous officials, embezzlement of company funds, and other practices.

Other issues in the sector include problems with licensing and land rights. For example, some plantations operate on expired Plantation License (Hak Guna Usaha/HGU). Plantations that operate on expired HGUs typically do not pay taxes and thus provide no benefit to the public. Research also found that many plantations exceed the size listed on their permit, or exceed the extent of the HGU. This is a problem since illegal operations on land outside the HGU area are not subject to regulation and can cause conflict with local communities.

Another set of problems is caused by household-operated plantations. The government often provides various subsidies for plantation production, such as agricultural equipment, counseling, seeds, and fertilizers. In practice, however, aid becomes a source of problems with corrupt officials extracting illegal fees in exchange for aid and, often times, assistance only reaches the elite and fails to reach small household plantations, an ineffective use of public funds.

A third set of problems relates to transparency. The plantation sector is typically opaque and it is difficult to obtain information on permits, the location and size of plantations, licensure, ownership, production volume, and other factors. The lack of information makes it difficult for the government to determine how much revenue should appropriately be collected and makes it difficult for communities to hold government to account for its management practices.

A fourth problem stems from the lack of transparency in plantation business practices. This research identified practices that enabled plantation permits to be used to authorize the clearing and logging of natural forests without the payment of wood production-related levies that would normally be required. In other instances, businesses divide plantations into small plots (<25 hectares) that are registered on behalf of individuals in order to qualify as smallholder plantations. This status is used to avoid the complexity of licensing and avoid of Non-Tax State Revenue (Pendapatan Negara Bukan Pajak/PNBP) payments.

In addition, this practice can also be a tool to control the land, when people who already have plantations in a Partnership Program, are eventually taken over by companies. In the Partnership Program, government encouraged the small holders surrounding a big plantation to plant the same commodities as the company. This scheme was aimed at increasing the farmer's income and ensuring a market for their products. However, while most plantation companies agree with the scheme, they also impose some terms and conditions regarding the quality of the products which are difficult for farmers to achieve. At the same time, the company also offers a "solution" to the farmers. With the consent of the farmers, to achieve the required quality and quantity, the company will work on the land and take care all of the costs. And when harvesting time comes, the company also will get the harvest and give some money to the farmer/land owner as payment for the harvest. Unfortunately, companies often "fail" to pay for the harvest or share profits owed to the landowners. Furthermore, in many cases, companies commit land grabbing by removing evidence of land boundaries, preventing the owner from recognizing his land which becomes integrated into the larger company plantation.

The last and the most serious problem is conflict between plantations and local communities. The lack of transparency in plantation management practices – from licensing through production – creates conflict with surrounding populations. Many cases were found where plantation maps included in licensing documents erase the land rights of people living in plantation areas. Conflict over land between people and plantations, as well as between plantation operations and other activities, such as forestry and housing, are inevitable. In many cases, as documented in media reports, conflict turns into violence that takes the lives of citizens in clashes with companies and security.

These are just a sample of the problems that affect the sector.



Photo: Bunyanun Marsus

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## IMPLICATIONS

The implications of these modes of manipulation and exploitation are readily apparent. Residents are harmed, and the country also loses revenue. But why do these problems continue? The plantation sector retains an aura of colonization. Plantation workers work hard only to earn subsistence wages. Plantation officials and elites are widely accused of cooperating and benefitting from continuation of these manipulative practices.

## CONCLUSION

There is still a long journey to improve the plantation sector in order for it to provide the greatest public benefit; increase state revenues; and maintain and ensure the sustainability of the country's renewable natural resources. This becomes a task for civil society groups, among others, to solve.

***Jean Ross prepared this brief as a consultant to the International Budget Partnership in October 2018***