



# THE ECONOMIC IMPACT OF THE PRESENCE OF OIL PALM PLANTATIONS TOWARDS ISPO CERTIFICATION: CASE STUDY OF JAYA USAHA SEMPURNA PRODUCER COOPERATIVE IN MEGA TIMUR VILLAGE

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## ABSTRACT

Jaya Usaha Sempurna Producer Cooperative located in Mega Timur Village, Sungai Ambawang Sub-district, Kubu Raya District, West Kalimantan, is seeking Indonesian Sustainable Palm Oil (ISPO) certification to improve the competitiveness and sustainability of their oil palm plantation. This study aims to analyze the economic impact of the presence of oil palm plantations towards ISPO certification, as well as its influence on the welfare of farmers, cooperative members, and the surrounding community. The method used is a qualitative approach with direct observation and in-depth interviews with farmers and cooperative members. The results show that ISPO certification provides an increase in farmers' income through better selling prices, and encourages sustainability in oil palm plantation practices. However, challenges such as certification costs and farmers' understanding of ISPO principles need to be addressed to achieve optimal results.

## 1. INTRODUCTION

Oil palm plantations in Indonesia play an important role in the national economy, especially in rural areas. The palm oil industry not only contributes greatly to state revenues through exports, but also absorbs a lot of labor, creates economic opportunities for the community, and provides a source of income for thousands of smallholders throughout Indonesia. The presence of oil palm plantations in rural areas also encourages local economic development, both in the agricultural sector, trade, and processing industry.

However, despite the palm oil industry's positive contribution to the economy, the sustainability of the sector is often under scrutiny. Numerous complaints related to the environmental impacts of converting forests into oil palm plantations, such as deforestation, pollution, and ecosystem damage, have led to pressure on the sustainability of the industry. In addition, social impacts such as agrarian conflicts and smallholder welfare issues are also issues that cannot be ignored. Therefore, there is a need to develop and implement standards that can ensure that palm oil plantation practices in Indonesia are not only economically profitable, but also environmentally friendly and socially just. To tackle the issue, the Indonesian government through the Ministry of Agriculture launched the Indonesian Sustainable Palm Oil (ISPO) certification. ISPO certification aims to ensure that palm oil plantations in Indonesia are implemented in compliance with standards covering aspects of environmental, social and economic sustainability. In practice, ISPO requires palm oil plantation managers to follow strict guidelines related to land use, environmental management, protection of labor rights, and strengthening the economy of farmers.

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With this certification, it is hoped that the Indonesian palm oil industry can compete in the global market while maintaining the sustainability of natural resources and the welfare of local communities

Jaya Usaha Sempurna Producer Cooperative, located in Mega Timur Village, Sungai Ambawang District, West Kalimantan, is one of the cooperatives committed to ISPO certification. The cooperative is a clear example of the efforts of smallholders and cooperatives to improve sustainability in their palm oil farming practices. If ISPO certification is approved by the ISPO Certification Body, Producer Jaya Usaha Sempurna Cooperative will be the first cooperative in the area to successfully obtain this certification (F, 2016; Kemampuan & Di, 2021) .

The ISPO certification process pursued by the cooperative not only aims to meet international standards, but also to increase the competitiveness of smallholder oil palm plantations, improve product quality, (Rosita, 2017; V.A.R.Barao et al., 2022) and provide higher economic benefits (Lestari, 2018; WAZIN, 2013) . With ISPO certification, cooperative member farmers are expected to get a better selling price for Fresh Fruit Bunches (FFB), as well as open wider market opportunities, both in domestic and international markets. In addition, by following the ISPO standard, farmers will be more sustainable, both in terms of environmental, social and economic aspects.

This study aims to assess the economic impact (Agusalim, 2017) felt by the surrounding community, especially the farmers who are members of the cooperative, with ISPO certification efforts on their oil palm plantations. The main focus of this study is to assess how ISPO certification affects the economic welfare of farmers, both in terms of income, market access, and overall quality of life. In addition, this study also aims to identify the challenges faced by farmers in implementing ISPO certification, and how cooperatives can support their members in facing these challenges. Through this study, it is hoped that a clearer picture can be found of the economic benefits that can be obtained by farmers who follow ISPO certification, and how this certification can encourage positive changes in oil palm plantation practices that are more sustainable and profitable for rural communities.

## **2. METHODS**

This study aims to explore the economic impact, farmer welfare, and acceptance of Indonesian Sustainable Palm Oil (ISPO) certification in Producer Cooperative Jaya Usaha Sempurna, Mega Timur Village, Sungai Ambawang District, Kubu Raya Regency, West Kalimantan. The research approach used is qualitative, with primary data sources in the form of in-depth interviews with farmers who are members of the cooperative and cooperative management. In addition, data was also obtained through field observations to observe the real conditions at the research location. Data collection techniques were conducted through structured and semi-structured interviews to explore respondents' perspectives, as well as documentation studies covering cooperative archives and documents related to ISPO certification. Data analysis used thematic techniques, where the main themes identified included economic aspects, farmer welfare, and acceptance of the certification program. The results of the study are expected to contribute to the understanding of ISPO implementation at the smallholder and cooperative levels, as well as to inform relevant policies to support the sustainability of oil palm plantation businesses.

## **3. RESULTS AND DISCUSSION**

### **Research Results**

The results show that oil palm plantations leading to ISPO certification have a significant economic impact on cooperative member farmers. First, the selling price of fresh fruit bunches (FFB) increased after the oil palm plantations obtained ISPO certification. This happens because ISPO certification increases market confidence in the quality and sustainability of palm oil products produced (Mariana, 2016) . Secondly, with training and mentoring from the cooperative, farmers gained better knowledge on environmentally friendly and efficient agricultural practices, which resulted in increased yields. However, the challenge is the high cost of certification, which is an obstacle for some smallholders. In addition, some farmers still do not fully understand the principles of ISPO, which requires more intensive socialization and training. In this case, cooperatives play an important role in providing the facilities and information needed to support such certification.

Based on the results of the study of the development of a model of independent smallholder oil palm replanting by Hadi et al., 2019 in (Mifta, 2022) states that the level of application of ISPO principles by independent smallholders in Riau Province is the principle of legality of independent smallholders' plantations, which is 46.07%, followed by the principle of plantation management by independent smallholders 11.66%, the principle of environmental management and monitoring 0.91% and sustainable business improvement 0.36%. The average achievement of the implementation of ISPO principles by independent smallholders of 12.31% is relatively lower than the findings of Fariyanti in Hadi (2019) which states that independent smallholders have implemented the ISPO standard by 28%. Fariyanti also studied the implementation of ISPO in PTPN and private plasma smallholders, which had implemented ISPO principles by 91% and 77%, respectively. The average implementation of ISPO principles by independent smallholders in Riau Province is 13.66% and is categorized as a very low level of implementation.

### **Direct Economic Impact**

ISPO certification has had a positive impact on the income of plasma smallholders who are members of the Jaya Usaha Sempurna Producer Cooperative. Smallholders reported a 15-20% increase in income after their oil palm plantations were certified. This increase is mainly due to the more competitive selling price of Fresh Fruit Bunches (FFB) in the market, which provides direct benefits to farmers. In addition, the cooperative implemented a transparent profit distribution system, which increased members' trust and participation in cooperative activities. Fair and open profit sharing encourages members to remain committed to the ISPO certification program, thus creating a cycle that supports economic sustainability at the farm level. The management of sustainable oil palm plantations must take into account environmental aspects (Dewi 2014). In ISPO, environmental aspects are found in principle four, namely environmental management and monitoring. In this study, principle four is used which is in Appendix II of ISPO which consists of ten criteria. PTPN VIII Cikasungka has been appropriate in implementing environmental management and monitoring. All ten criteria in the fourth principle have been carried out in accordance with the fourth principle of ISPO Annex II (et al., 2018).

### **Indirect Economic Impact**

Indirect economic impacts are also significant for communities surrounding oil palm plantations. The presence of oil palm plantations leading to ISPO certification has created local employment in various sectors, such as cultivation, transportation, and palm oil processing. This helps improve the economic welfare of the community by providing wider employment opportunities. In addition, the presence of oil palm plantations drives local infrastructure improvements, such as access roads, bridges, and irrigation facilities, which improve mobility and connectivity in the village. These infrastructure improvements also have a positive impact on people's daily lives, such as easier access to markets and public services. In addition, oil palm plantations stimulate the growth of micro-enterprises around the village, such as food stalls, agricultural equipment stores, and transportation services, which contribute to the overall local economy (Bisnis.com, 2020).

### **Economic Challenges**

While ISPO certification brings positive impacts, there are several economic challenges that communities still face. One of the main challenges is the high economic dependence on oil palm plantations as the sole source of income. This dependency makes communities vulnerable to changes in market conditions that can affect their economic sustainability. Frequent fluctuations in FFB prices are also a concern for smallholders. Although ISPO certification has helped improve price stability, (Vitriasari, 2010) smallholders still face price uncertainty that can affect their income, especially when FFB prices fall. Therefore, there is a need for economic diversification and risk mitigation strategies for smallholders in order to reduce the negative impact of such dependency and price fluctuations.



Figure 1. Kopsen JUS Oil Palm Fruiting At 2 Years Old

#### 4. CONCLUSION

ISPO certification has positively impacted the incomes of cooperative member farmers through increased selling prices of palm oil products, with cooperatives playing an important role in training, mentoring, and market access. However, high certification costs and farmers' lack of understanding of ISPO principles are major challenges. To overcome this, a policy of subsidizing certification costs, improving training and socialization of ISPO standards, and strengthening the mentoring system for cooperatives and smallholders are needed to make the certification process more effective and inclusive.

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