PERKUMPULAN FASILITAS PERTANIAN PELITA SERUYAN

FIVE YEAR PLAN

SUSTAINABLE PALM OIL PRODUCTION 2019-2023

&

ANNUAL PLAN 2019

Submitted to the RSPO/UNEP

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Introduction

Perkumpulan Fasilitas Pertanian PELITA Seruyan (PELITA) is a multi-stakeholder platform consisting of government representatives, agribusiness companies, farmer groups and non-government organizations. The participation of different institutions as the members of PELITA is represented by officials formally appointed by respective institutions. The representation to PELITA should be formally manifested through a formal letter issued by authorized personnel from the respective institution. The establishment of PELITA was formally marked by a public declaration that was held on 19 February 2018, which was attended by 20 members. Following the public declaration, PELITA was formally registered through a public notary on registered number AHU-0002414.AH.01.07 in Kuala Pembuang, Seruyan.

This document is the first PELITA's five-year plan. It will guide the implementation of PELITA programs between 2019 and 2023. The five-year plan is divided into four main programs as the interpretation of the proposed vision and mission of the PELITA as detailed below. The programs include:

1. Accelerate the certification of ISPO and RSPO for independent smallholders;
2. Provide access to agricultural inputs and farm equipment for independent smallholders;
3. Provide access to credit and financial support for independent smallholders;
4. Initiate long-term investment program including independent mill and nursery unit.

Programs 1, 2, and 3 can be implemented immediately in the first years of PELITA, while Program 4 will involve long-term investments before the program can be fully implemented. At the time of writing, several assessments are still on-going or are planned, which will develop the business plan for those activities. Hence, the level of details between programs presented in this document vary.

This report is structure as follows. First, it discusses about the core ideology of the institution including its vision and mission. Before presenting the goals that will be achieved until 2020, the report will detail theory of change. The discussion about the goals and the strategies will then be presented.

Core Ideology: vision, mission and values

The vision of PELITA is to: "*facilitate sustainable agricultural development*". Although it is clear that the focus of the Facility is on Seruyan district, no specific reference regarding the geographical location is provided in the vision statement. This is a deliberate decision so that the Facility can also provide services for farmers outside Seruyan district. The use of terminology "agricultural development" is chosen, despite of PELITA's focus on independent smallholders, because the concept of agricultural development includes farmers and the agricultural practices performed by farmers. The Facility does not want to limit its focus entirely on the farmers, but it will need to create the enabling environment for farmers to make the transition towards sustainability such as streamline process in getting legal papers and others. The Facility also aims to cover a wide range of commodities, however, for the first five year it will focus mostly on oil palm.

To achieve the vision, PELITA's mission statement can be detailed as follows:

1. Provide access to knowledge and information for farmers regarding agricultural inputs, good agricultural practices, and access to financial and non-financial support;

2. Provide agricultural inputs, including seedlings, fertilizers, equipment, and machineries, for farmers to adopt good and sustainable agricultural practices;

3. Build partnership with partners to achieve sustainable agricultural development, including but not limited government, private companies, and non-government organizations.

Theory of Change

To achieve our vision and mission, we develop the five-year (strategic) plan based on our theory of change where the large-scale transitions toward sustainable development can be made possible through partnership between multi-stakeholders. The transition towards sustainability, for farmers, is not easy and not cheap – hence a systematic support through public policies and markets should be aligned and promoted.

The overall approach of the strategy proposed here is to work within a jurisdiction—a formal political geography, such as the district level in the case of PELITA Seruyan. It moves away from project-based interventions or a project-based approach to a larger administrative area. This approach offers the following advantages:

- Government can lead the development of policies that can systematically address the issues that are encountered by farmers in making the effort to transition towards sustainability. Several activities that can be supported by the government include expediting the issuance of legal documents, ensuring more transparent distribution of subsidized agricultural inputs and other financial or non-financial support;
- Bringing support from the private sector and non-government organizations. The private sector and non-government organizations can provide financial or non-financial support for farmers to bear the cost of making the transition towards sustainability;
- Achieve large-scale outcomes. By bringing all stakeholders together, the facility aims to serve all farmers in Seruyan district. This will eventually achieve large-scale outcome and sustainability becomes a norm within the jurisdiction.

Based on the above theory of change, PELITA is a platform that brings together multi-stakeholders – including the government, the private sector, and non-government organizations – to work together to provide necessary service for all farmers in Seruyan district so that they can make the transition towards sustainability. PELITA aims to provide systematic support for farmers instead of sporadic assistance. In order to achieve this, PELITA should also be financially and administratively independent. Hence, income-generating programs should be promoted to ensure the Facility can provide service to all farmers in the district.

Goals

Between 2019 and 2023, PELITA aims to achieve the following goals:

1. 6000 independent farmers obtain RSPO or ISPO certification;

2. Farmers in Seruyan have access to seedlings (up to 1100 farmers), fertilizers (6,000 farmers), machinery;
3. The nursery unit is operationalized;
4. An independent mill established producing segregated certified palm oil.

Table 1 details the proposed timeline for achieving the goals above mentioned. Some activities can be implemented immediately, such as for Goal #1. For Goal #2, PELITA can serve as a [big] trader to provide certified seedlings, distribute subsidized fertilizers, rent machineries and equipment, as well as provide information for farmers to access credit from financial institutions. Serving as a trader can be implemented immediately. Over time, the Facility can serve as a producer for seedlings, where a nursery unit will be established (Goal #3). Several requirements should be met to establish a nursery unit, so we aim to focus on the preparation of the unit in the next few years before it is fully operationalized in 2023. Finally, we also aim to establish an independent mill where independent smallholders will be the major shareholders. The mill will be able to provide 100% certified palm oil from smallholders that is traced down all the way to the farmers' plantations.

Table 1. Timeline for Delivering PELITA Target

Good & Services	2019	2020	2021	2022	2023
RSPO & ISPO certification	500 farmers	1,000 farmers	1,500 farmers	1500 farmers	1500 farmers
Trading fertilizers, seedling & equipment	400 farmers (fertilizers)	1,000 farmers (fertilizers)	1,500 farmers (fertilizers)	1500 farmers (fertilizers)	1500 farmers (fertilizers)
Nursery Unit	Prepare the legality for establishing a nursery unit	Build the infrastructure for the unit	Build the infrastructure for the unit	The unit begins production	The unit is fully operational
Independent Mill	Prepare the legality & secure finances	Prepare the legality & secure finances	Build the infrastructure for the unit	The unit begins production	The unit is fully operational

Strategies and Program

Program 1 – Certification of ISPO & RSPO

Highlight:

The facility will assist farmers to obtain RSPO or ISPO certification. The Facility will connect farmers with a donor who is interested to provide financial support for farmers to achieve certification. In return, the Facility will charge fees for the services they provided including finding a donor and a buyer, mentoring and training farmers, and providing administration and logistical support for the audit process. Farmers should lead the implementation of the certification process directly through an Internal Control System (ICS). The farmer

contribution to the process include financing salaries of ICS staff who is responsible for day-to-day implementation. In return, the farmers who will get certification will be able to sell their product with a premium price.

Services provided:

Specifically, the services that will be provided by the Facility are as follows:

1. Farmers, who want to be certified, are invited to come to the Facility office. The Facility will develop a plan for certification, including the financial analysis for free for farmers. Farmers will be well-informed that the activities can only be started when financial support from a donor is secured in the form of a contract.
2. The Facility will seek for a donor to finance the certification process. Once a donor is committed, the facility can charge a percentage for their service in connecting between a donor and a farmer group.
3. The Facility will provide trainers and mentors for farmers throughout the process of certification at cost. The Facility will ensure cost efficiency when providing mentorship and training, including by involving stakeholders in close proximity to the farmers' residence.
4. The Facility will also assist in finding an audit team for ISPO and RSPO certification and also communicate to RSPO and ISPO throughout the process. It will also connect farmers with the government and other partners.
5. After getting the certification, the Facility will also connect the farmers with a buyer for getting a price premium.
6. The Facility will connect the farmers with a donor to provide financial support for carrying out surveillance.

Target customers:

The service can be provided for all independent farmer groups in Seruyan district. The Facility, together with the District Plantation Office, will disseminate information regarding ISPO and RSPO certification through public events that are held in several sub-districts. The public events will be carried out for free for farmers. Farmer groups who are interested to be certified can send their representative to visit the Facility Office in Kuala Pembuang, Seruyan. The Facility Office will be staffed by a facilitator who will provide information regarding the certification and develop a plan for certification, including the financial analysis (Service #2).

A set of criteria will be used as the basis for selecting farmer groups that will be assisted. This will ensure that farmer groups are ready to be certified and taking the ownership of the process. The proposed criteria include, but not limited to:

- Farmers are organized into any type of organization or at least willing to be organized in an organization;
- A committed leader or representative of the farmers that has been formally or informally appointed;
- Other criteria to be decided by the Facility.

Delivery Channel and Relationship with Clients:

Once the Facility has secured financial support from a donor, the farmer representative will be contacted by the Facility. The work plan will be revisited again and agreed together between the farmer group and the Facility. The farmer group should also assign several

personnel to be responsible for daily activities as part of the ICS. A village facilitator will be assigned to provide mentorship for farmers and also to assist in administrative and logistical process for training and other activities. The facilitator will be based in the close proximity to the farmers to ensure easy interaction. Trainings of farmers will also be provided in the village where farmers live.

Core competency & Partner Network

In order to deliver the services, resources that should be owned by the Facility include:

- An officer to meet and greet farmers in the Facility office and develop a work plan and a business plan for farmers. One officer should be present in the Facility Office daily.
- Village facilitators to assist farmers to establish or strengthen farmer groups, develop standard operating procedures and support the groups to implement the work plan agreed together. One Village Facilitator can ideally support two to three nearby villages.
- Trainers to provide trainings for farmers. The Facility will build a network of trainers from agribusiness companies in the district and also from district government officials. This will ensure cost-efficiency in providing trainings for farmers.
- A Facility Manager with the following responsibilities: i) managing resources to deliver the services for farmers; and ii) finding donors and buyers as well as managing the collaborations with partners including private actors.

While some of the activities should be carried out by in-house staff of the Facility such as number 1 and 3 above, other activities can be outsourced or implemented together with other partners particularly with the member institutions of the Facility such as INOBU and private companies. Two major activities that can be done through collaborations are:

- Connecting to donors – this can be provided by a partner who can provide a service for connecting with donors. The fee can be proportionately distributed. Alternatively, the partner will find donors for free, so the benefit can be considered as income for the AF.
- Building network of trainers – Trainers will be found from the district, mainly from government or companies operating in the district. A trainer list will be developed. Options will be provided by the trainers whether or not they want to donate their fee for the AF.

Cost Structure & Revenue Model

The certification program is the first program that will be implemented by the Facility. Some cost items will be borne by several partners. The cost structure for delivering the services can be itemized as the following:

- Personnel costs. At the minimum level, the Facility should be staffed by one Manager, one Administration and Finance staff, and one officer who can also play a role as a village facilitator. As financial support is secured for certifying a farmer group, then a village facilitator should also be recruited.
- The Facility Office and office equipment. Currently, the office space is provided for free by the government partner and office equipment is currently being donated by a UNEP project.

- Training, meeting and audit costs. The cost of certification can be classified into several activities as detailed below. While the costs related to some activities vary significantly between farmer groups depending on their readiness, some costs are fixed such as the audit and training costs. Another activity where farmer groups will rely on external consultants to assist is mainly related to developing a baseline analysis, mapping exercise and other analyses such as social impact assessment, land use change analysis and high conservation value areas.

The Facility can generate revenue through:

- Brokering fee and management fee charged to the total amount of donor financial contribution.
- The total fund provided by donors will be used to provide mentorship and training. Cost effective measures will be put in place to ensure that the cost of certification per hectare or farmer can be reduced. This will allow the Facility to serve more farmers.
- Brokering fee for selling the certificates.

Timeframe

The certification program is the first program that can be implemented immediately. Currently, there is a commitment to support 1,000 farmers in Seruyan financed by RSPO Smallholder Support Fund.

Program 2 Agricultural Inputs and Farm Equipment

Highlight:

The Facility aims to provide affordable and good quality of agricultural inputs, including seedling and fertilizers, and farm equipment such as machineries for land clearing up to post-harvesting. It will start with focusing on oil palm and aim to also support other commodities including food crops. In the first few years, the Facility will serve as the re-seller for main agricultural inputs mainly seedling and fertilizers. Regarding machineries, the Facility will provide service for farmers including for land clearing for establishing plantation and also for replanting. This will serve as an alternative to use fire for land clearing. The Facility will generate revenue from charging farmers for the services provided.

Products and Services provided:

Specifically, the products and services that will be provided by the Facility are as follows:

- Sell certified seedlings particularly for replanting of aging trees or trees with low productivity rate. The Facility will establish a nursery focusing on oil palm first and on other commodities in the later years.
- Sell fertilizers (subsidized and non-subsidized) particularly for farmers that go through the certification process. The Facility will serve as the distributor of the fertilizers focusing on the non-subsidized fertilizers in the first few years before attempting to also support the distribution of subsidized fertilizers.
- Rent machineries for land clearing and replanting. As farmers are banned from setting fire for land clearing, the Facility should provide an alternative for land

clearing that does not involve burning. The service will be provided particularly for farmers going through replanting.

Target customers:

Seedlings – The Facility will sell certified seedling for all farmers, although the priority will be given to those who are going through replanting. Farmers that are pursuing new planting should also be able to purchase the seedlings with certain criteria that will be developed by the Facility.

Fertilizers – The Facility will prioritize selling fertilizers to farmers going through the certification process. Currently, farmers obtain fertilizers from traders who purchase the fresh fruit bunches (FFB) from the farmers. The traders will usually provide fertilizers upfront and will deduct the costs during the purchase of the FFB after harvest.

Machineries – Farmers can request for such service through a direct visit to the Facility Office, using mobile application or internet, or a direct phone call to the office. Upon the request and checking on the credibility of the request, the Facility can provide the service to farmers at cost.

The target of including other crops or commodities in the Facility should be researched and sought after one year of the establishment of the Facility.

Delivery Channel and Relationship with Clients:

Several options include introducing technology for placing an order and working with farmer groups that are being supported under the certification programs for instance. In the long-run, the Facility should consider establishing satellite offices in major sub-districts that have high concentration of oil palm farmers, so farmers can visit the office or store directly.

The Facility can also assist the farmer groups to understand their needs for seedlings and fertilizers. The farmers can also request whether they would like to purchase the products ahead of time, so the procurement can be done with a greater volume with better pricing.

Upon the request from farmers, the Facility will find the equipment or machinery needed from individual or entities surrounding the farmer's land. An upfront agreement with the farmer regarding the cost, terms and conditions will be signed. The Facility may also open a possibility to find donor to subsidize the cost borne by the farmer.

Upon requests, the Facility will deliver the inputs to farmers directly to their farms. This is crucial considering that the farmers do not have access to transportation.

Core competency & Partner Network

In order to deliver seedlings and fertilizers, resources that should be owned by the Facility include:

- Space for storage particularly for fertilizers and nursery area for seedlings;
- Trucks for transporting product to farmers;
- Capacity to source seedling and fertilizers from a producer or distributor, including logistic and transportation.

In order to provide access to machineries for land clearing, resources that should be owned by the Facility include:

- Access to heavy equipment that can be rented. At the beginning, the Facility will rent equipment from partners including from companies. The added value of the Facility is really to connect between farmers and equipment owner.
- Depending on the demand, the Facility can purchase the equipment to provide the service to clients.

Collaborations with partners can be sought to deliver the following activities:

- Collaborations with donors – The Facility opens the opportunity for collaborations with donors including public and private finance. Financial support or in-kind contribution can be channelled through the Facility to assist farmers to bear the costs of the agricultural inputs.
- Building network of service providers and main suppliers – As the Facility will serve as a broker, it needs a strong network with service providers for equipment or machineries and also producers of fertilizers, seedlings and pesticide. Regarding the seedlings, the production and circulation of certified oil palm seedlings are tightly regulated by the Minister of Agriculture[1]. Currently, there are approximately 15 business entities determined by the Director-General of Plantations as producers of certified palm seedlings. The Facility will require to establish a cooperation with one of the certified seed producers.

Cost Structure & Revenue Model

Agricultural inputs will be provided at cost, either at a subsidized or full price. Donors and private companies can contribute to provide subsidy to reduce the price of the agricultural inputs, while some other inputs can be sold at a full price.

The cost structure for delivering the services can be itemized as the following:

- Personnel costs. At the minimum level, the Facility should be staffed by one Manager, one Administration and Finance staff. The Manager should be able to build network with service providers and suppliers and also to make sure of the logistics for transporting the inputs from to the farmers;
- The Facility Office and office equipment. The office space can be shared together with other programs;
- Costs for renting space for storage particularly for fertilizers and a nursery area for seedlings;
- Costs for purchasing agricultural inputs or renting equipment or machineries; and
- Costs for renting trucks for transporting product to farmers.

Timeframe

The Facility can immediately start the program. Several preparations should be put in place where the Facility is expected to start selling fertilizers and seedlings by the end of 2019.

[1] Keputusan Menteri Pertanian RI NO 76/Kpts/KB.020/10/2017 tentang Perubahan Atas Kementan No 321/Kpts/KB.020/10/2015 tentang Pedoman Produksi, Sertifikasi, Peredaran dan Pengawasan Benih Tanaman Kelapa Sawit.

Program 3 Nursery Unit

Highlight:

In the long-run, the Facility aims to establish a nursery unit not limited on oil palm but also other crops. Although the business plan will be developed based on a robust research, some details are provided below to guide the research that will be carried out in the beginning of 2019. The nursery unit will first purchase palm seedlings and grow them until they are ready for planting as discussed in Program 2 above. In the future, the unit can also hire in-house breeders to produce high quality seedlings for palm and other commodities that can be accessed by farmers in a close proximity.

Products and Services provided:

The Facility will sell certified seedlings first for oil palm and later for other commodities. In 2019, as part of the Jurisdiction Certification Working Group, the restoration program of the riparian area will be started, and it needs seedlings of the chosen plants that are suitable for the restoration program.

Target customers, Delivery Channel and Relationship with Clients:

The target customers are farmers in Seruyan district or surrounding districts. As currently farmers obtain their agricultural inputs through traders, they can also be the delivery channel to reach out to farmers. The Facility should also be creative in providing benefits for farmers to ensure that farmers prefer certified seedlings. Financial and non-financial benefits should also be provided for traders if they act as the reseller for the certified seedlings.

Core competency & Partner Network

In order to deliver seedlings and fertilizers, resources that should be owned by the Facility include:

- A specific nursery site
- Building, basic equipment and supplies
- Trucks for transportation and heavy machinery for fertilizers and others
- Capacity to source seedling and fertilizers from a producer or distributor, including logistic and transportation

The nursery unit should be staffed by professional breeders. A professional breeder can be a nursery expert/experienced plant breeder vast knowledge both in technical and management of plant nursery. Nursery management activities, in general, include planning, organizing, directing, and supervising the nursery process. Meanwhile, from a technical point of view, a hired professional breeder must have a deep understanding of site preparation, nursery preparation, maintenance, evaluation and sorting of seedlings. Since activities of the nursery are crucial in determining the quality of the end products, thus an assistant who can help with the technical implementation of the nursery is needed. A nursery assistant is expected to perform daily nursery activities based on the planning and directions from the breeder.

Collaborations with partners can be sought to deliver the following activities:

- Building network with other nursery unit in Seruyan– Partnerships between facilities and nursery units available in Seruyan need to be established. This partnership is

expected to provide benefits such as information exchange and joint workshop/training. In the long run, it is expected that business relations between the Facility and other nursery units can facilitate broader marketing and more diverse agricultural inputs required by farmers in Seruyan.

Timeframe

An analysis regarding the nursery unit will be carried out in the beginning of the year where the financial model will be developed shortly after.

Program 4 Independent Mill

Highlight:

The facility will develop a centralized processing facility for farmers that will be certified under by the facility under Program 1. This will enable farmers to own a downstream business and also get benefits from selling palm oil to international buyers and consumer good companies 100% traceable and certified product. The initial proposal is to establish a relatively modest scale operation, processing approximately 40,000 tonnes of fresh fruit bunches per year, to produce approximately 8–9,000 tonnes of Crude Palm Oil (CPO) annually. The modest scale, compared to larger processing facilities currently operating in Kalimantan and Sumatra, is proposed to mitigate the risk that the processing mill's capacity exceeds the available supply of certified fruit; while also providing the opportunity to scale up as the supply of certified palm oil increases over time.

Products and Services provided:

The Independent Mill unit will:

- be owned by farmers and the Facility
- purchase fresh fruit bunches from the certified farmers assisted under Program 1
- sell segregated physical oil to a committed buyer

Business Model:

This proposal is based on both the independent mill, and the smallholders supplying the mill, setting up their operations to ensure conformance with the Indonesian Sustainable Palm Oil (ISPO) system and the Roundtable on Sustainable Palm Oil (RSPO) certification standards.

The proposed project is based on sourcing oil palm fruit exclusively from smallholder plantations operating on mineral soils; in contrast to cultivation of peat lands. Ideally, no new plantations would need to be established to supply 100% of the present project's mill capacity. However, there are processes that can be followed if a supplementary supply is required to support the mill capacity.

This project is expected to require further investment in establishing the smallholder cooperatives, and ISPO/RSPO group certification for those cooperatives. In addition, the smallholder cooperatives are expected to look for some form of offtake agreement comprising a premium (or 'compensation') from a mill to produce certified sustainable fresh fruit bunches.

Under the target level of production for this proposal, nearly 1,600 smallholders would be required to maintain a sufficient resource base for the fresh fruit bunches to supply a new mill with ISPO/RSPO-certified material.

It is proposed that the new palm oil processing mill should have the capacity to process around 10 tonnes of fresh fruit bunches per hour, or up to 40,000 tonnes of FFB per year. This scale is intentionally modest compared to many mills operating at 30-45 tonnes of FFB per hour in Indonesia; notably processing non- certified material.

The proposed palm oil processing mill will require a capital investment of approximately USD 2 million for construction. Coupled with other project set up costs and contingencies, the indicative upfront capital would be in the order of USD 2.6 million.

Annual operating costs are projected to be approximately USD 5 - 6 million. The purchase of FFBs from smallholders will account for 80% of annual operating costs (approximately USD 4.5-5 million per year). Other operating costs comprise energy consumption, maintenance and labour costs.

Based on annual production reaching 8,800 tonnes, and a current ex-mill price of USD 550/tonne, CSPO sales would result in annual revenue of over USD 4.8 million. In addition, the mill would produce 1,500 tonnes of palm kernel oil and 9,500 tonnes of empty fruit bunch oil. These products can be sold at approx. USD 1,400/tonne and USD 5/tonne, respectively, generating annual revenues of USD 2.1 million and USD 50 000 respectively. On this basis, total annual revenues of USD 6.5 million are projected.

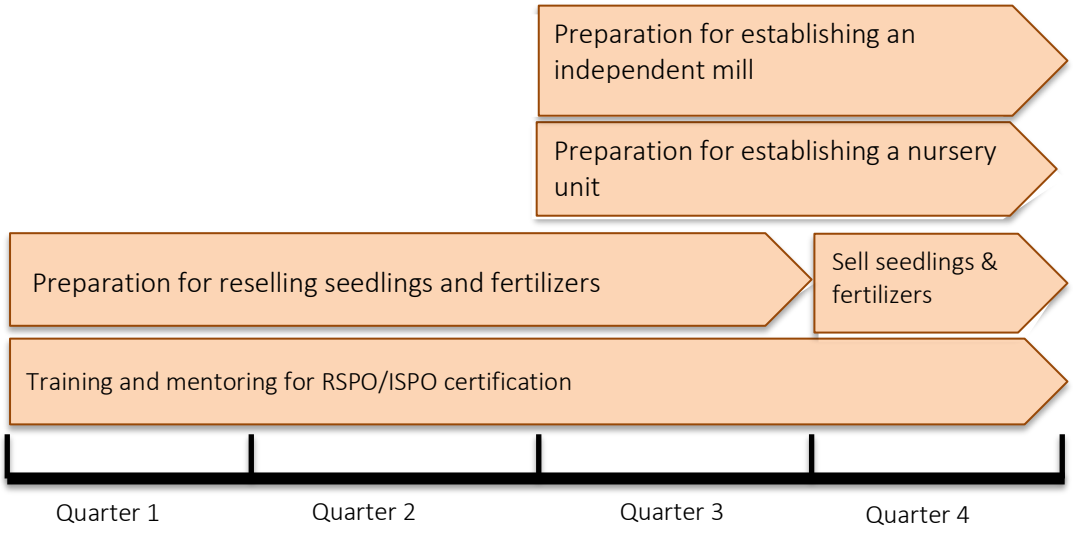
Contribution of farmers:

We aim to secure 70% of the capital from the bank, while 30% of the equity will be obtained from investors and farmer groups. The total equity that should be secured is as much as US$ 780,000. Fifty percent of the total equity will be covered by farmer groups and we will invite investors to cover the remaining fifty percent. The investors can include private and public entities such as local government business units.

2019 Target Outputs and Activities

This section specifically details the 2019 targets, outputs and activities that will be pursued by the Facility. Figure 1 details the quarterly activities that will be pursued by PELITA in 2019.

Figure 1. 2019 Timeline of Agricultural Facility



For Program 1, the target outputs that will be delivered in 2019 are 500 farmers to be certified under RSPO and ISPO. We assume that the farmer groups that will be certified have been identified in 2018 through the following steps. First, public information dissemination regarding the opportunity is carried out by the Facility. Second, the Facility selects the readiness of farmer groups to be certified. Third, the Facility announces the result of selected farmers groups that will be certified. Fourth, the initial work plan is developed for the farmer groups and consulted with them.

In the beginning of 2019, the implementation of the work plan to certify farmers can start immediately. With the current financial support that has been secured, the process of certifying the first 500 farmers will include the following process:

1. Establishing or strengthening the organization. Although the farmer organizations may vary between villages, however, one common structure known as Internal Control System (ICS) should be established to carry out activities related to the certification process. The village facilitator will be responsible for mentoring the ICS.
2. Document recording. The certification process will involve many documents that should be properly stored. The ICS should assign a person to be responsible for the filling system and the Facility will provide training. A good filling system is a key to the success of the certification process.
3. Several assessments should be carried out as part of the certification process including: baseline assessment including smallholder mapping, land use change analysis, social environmental impact assessment and high conservation value areas as required by RSPO. Several lab tests should also be carried out. The Facility together with partners will facilitate farmers to get access to the assessments.

4. Farmers should also have sufficient legal documents including *Surat Hak Milik* (SHM), *Surat Tanda Daftar Budidaya* (STDB), and Surat Pernyataan Pengelolaan Lingkungan (SPPL). The Facility can provide necessary information regarding the process of obtaining legal document. Ideally, the process should be carried out by ICS directly, however, a support from the Facility in expediting the process is often required.
5. Developing SOP and Conducting the Monitoring – around four major themes of SOP should be developed including legality of the organization and farmers, institutional setting, good agricultural practices, and high conservation value area management. For each theme, several SOPs should be developed respectively. SOP should later be communicated or socialized with all farmers. Based on the SOP developed, a monitoring should be carried out where data collection should be carried out involving all farmers or just involving the ICS members. The Facility should provide the necessary support for the ICS to develop SOP and carry out the monitoring.
6. Installing necessary equipment – several equipment is required as part of the audit including the dangerous waste processing facility, waste bin, information boards and boundary markers. The cost of installing equipment is usually borne by the farmers as they can be considered as assets for the group or the organization.
7. Training – at least 14 trainings should be provided for farmers including on organizational skills, good agricultural practices, and others. Trainings usually involve selected representatives from the farmer sub groups who will then provide training for the entire members of the sub groups. The Facility will provide training for the farmers.
8. Audit and corrective measures – Two types of audit will be carried out – pre and main audit. A pre-audit can be carried out internally to assess the readiness of farmers to be certified. While ISPO makes the pre-audit mandatory, it is optional under RSPO. After the pre-audit, the villages went through the main audit. RSPO allows a duration 60 days for the farmers to carry out the corrective actions to close major findings and 6 months to close minor findings. The Facility will assist in the logistics of the audit process and also advise the farmers to address the findings from the audit.

For Program 2, the Facility aims to provide access to 500 farmers to fertilizer in 2019, while at the same time prepare the establishment of the nursery. The preparation for selling these inputs will include the following activities:

1. Obtain the necessary permits for the Facility to sell fertilizers as detailed in Table 2 below.
2. Establish the infrastructure or facilities for PELITA to sell fertilizer such as a storage room, a truck for transportation, and others.
3. Establish an agreement with the suppliers for fertilizers.
4. Market the service/product to farmers and obtain their initial demand for the service or product offered.

We are hoping to complete as many activities as possible in 2018, so the target of the starting date for delivering service/product can be moved to before the fourth quarter of 2019.

Table 2. The requirements for an entity to be a distributor of fertilizers

Distributor of Non-subsidized Fertilizer[2]	
Administrative requirement	a. Not concurrently as a distributor of subsidized fertilizer PT Pupuk Indonesia (Group) in the same province. b. Form a legal entity or business entity. c. Taxable Entrepreneurs (PKP) / have NPWP.

[2] Retrieved from http://www.bumn.go.id/pupukindonesia/halaman/53 at November 5, 2018.

	d. Have a company certificate and Trading Business License (SIUP), Business Place Permit (SITU) / HO (Disturbance Permit) / Domicile Certificate, and Company Registration Certificate. e. Engaged in general trading business.
Other requirements	Terms of purchase: for new distributors, a minimum purchase of 25 tons. For older distributors, purchases can be less than 25 tons.
	There are several types of purchase services offered by manufacturers, depending on each producer: • By FOT / FOB (goods delivered at manufacturer's warehouse). • CFR (goods delivered at the port of destination of the buyer), and • Franco (goods delivered in the buyer's warehouse).

For Program 3 and 4, the Facility will invest in making the preparation for establishing the nursery unit and an independent mill. Several activities that should be pursued under Program 3 and 4 are as follows. Under Program 3, the preparation for establishing a nursery unit should involve the following activities:

1. Carry out study on the financial feasibility and the business plan of the nursery unit, which will be completed by the first quarter of 2019.
2. Prepare the legality of the nursery unit as detailed in Table 3. The preparation process will be completed in 2019.
3. Prepare the necessary facilities and infrastructure by 2019.

Table 3. The requirements for an entity to be a distributor of seedlings

Certified Seedling Distributor as A Business Entity	
Regulation	1. Regulated by Minister of Agriculture Regulation number 50 / Permentan / KB.020 / 9/2015 associated with the production of certified seedling distribution, mentioning that a producer of seedling must have a seedling production permit with the following criteria: a. Possess and/or masters source of seedlings; b. Have a seedling production unit equipped with adequate facilities and infrastructure according to the type of plant: and c. Have experts and/or resources who are skilled in the seedling.
	2. The seedling production business permit is issued by the governor / authorized official (e.g., Provincial or Plantation Office of Agriculture)
	3. The requirements for submitting a business permit application to the governor / related office are as follows: a. Have a deed of business establishment and change (except individuals); b. Power of attorney from the Head of Company/owner (except individuals); c. Photocopy of letter of Identity from the Head of the Company/owner or authorized; d. Photocopy of Taxpayer Identification Number (NPWP); and

	e. Recommendation letter as a seedling producer issued by Technical Implementing Unit (UPT Pusat/ Daerah) that carries out duties and functions Supervision and Certification of Seedlings of Plantation Plants.
	4. In order to have the recommendation letter, the (prospective) seedling producer submit an application to the Head of UPT Pusat/Daerah.
Products	There are 3 seedling products commonly provided and traded by more or less 15 certified seedling producers in Indonesia: a. Sprout (KKS= Kecambah Kelapa Sawit) b. 3 months old seedling c. > 9 months old seedling
	Based on the survey, most of the farmers prefer to use > 1 year old seedling.
	The price[3] offered by the certified seedling producers are vary from 3 different products: a. Sprout: starts from IDR 7.500 to IDR. 19.500 per seedling b. 3 months old seedling: IDR 15.000 to IDR.19.000 c. > 9 months old seedling: IDR.30.000 to IDR.40.000
Distributor of Subsidized Fertilizer	
Requirements	• Incorporated. • has a Deed of Establishment of the Company. • Company Registration Certificate (TDP). • Trading Business License (General Trading). • Taxpayer Identification Number (NPWP). • Sign of list of warehouses and means of transportation (photocopy of vehicle registration). • Having an office and active management. • Have at least 2 (two) authorized retailer kiosks. • Has a capital of approximately IDR 2.000.000.000 (two billions rupiah) (Guaranteed by the Bank). Recommendation from the local Department of Industry and Trade
Other requirements	Appointment of 2 official kiosks is fully authorized by the distributor. If there is an outside party who wants to become an official kiosk, it must fulfill the requirements and submit it to the distributor. The requirements are: • Trading Business License (SIUP). • Company Registration Certificate (TDP). • Taxpayer Identification Number (NPWP). • Have active management and product distribution facilities. • Mention the location of the kiosk submitted. Have sufficient capital.

[3] The list of the price is based on the data from Ditjenbun, 2016. Retrieved from http://webcache.googleusercontent.com/search?q=cache:0cmYlkohNoUJ:ditjenbun.pertanian.go.id/downlot.php%3Ffile%3DProdusen_Benih_Sawit_2016.pdf+&cd=1&hl=en&ct=clnk&gl=id or https://id.123dok.com/document/z31061my-produsen-benih-sawit-2016.html November 5, 2018.

Under Program 4, the preparation for establishing an independent mill should involve the following activities:

1. Finalize the business plan of the independent mill, which will be completed by the first quarter of 2019.
2. Consult potential farmer groups who may be interested to invest in the Mill. The process is scheduled to be completed in the second quarter of 2019.
3. Prepare the legality of the independent mill starting in the third quarter of 2019.

Human Resources

Currently the Facility already has a manager and an administration/finance staff. The manager should be able to administer the four units. His role will include:

- Ensure successful implementation of all activities under each program, including by developing a work plan, monitoring of the implementation, and troubleshooting.
- Build network and relationship with partners, including, with suppliers, distributors, service provider and customers, including farmers or traders.
- Prepare the necessary legal document, consult members for their participation in the investment and other preparation as necessary for Programs #3 and #4.

Additional staff will specifically be required for the certification process (Program #1) for 2019. A village facilitator will be required to support the certification process of the first 500 farmers. Additional staff will be required as the number of farmers increases.

No additional staff is required for Program#2 until the last quarter of 2019. The additional staff will be required particularly for the sale and logistics of the agricultural inputs. One additional staff will be sufficient where the logistics can be outsourced to an external service provider.

Financial Projections

The main goal of the Facility is to provide services for all farmers in Seruyan district. In order to do so, the Facility should have strong financial management and also financial capacity to ensure its sustainability to provide services for farmers. To ensure sustainable revenue stream, the Facility will provide services for farmers at costs – either a subsidized or unsubsidized rate. This will allow the Facility to provide free service for farmers such as access to information and others.

Table 3 specifies the business model for delivering services in the Facility. Three possible models includes free service, subsidized service and fully-paid service. Free service is when the Facility provides a service for farmers “for free”. In this case, the Facility obtains financial support from third parties to offset the expenses of delivering the service. Subsidized service is when the Facility provides a service that is partly paid by farmers as the beneficiaries while part of the cost of delivering the service is offset by donors or third parties. Finally, the fully-paid service is a service that is delivered by the Facility that is paid by farmers at full cost of the service. The Facility is committed to provide information for farmers for free, while subsidized service will be provided for the certification program. Depending on donors’ commitment, the Facility can also provide some of the agricultural inputs at the subsidized

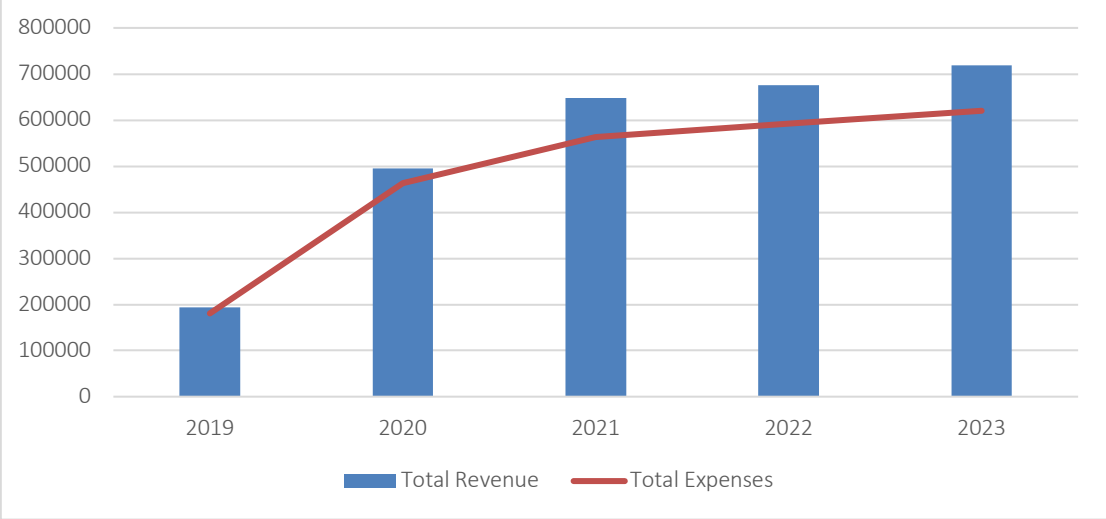
rate. Furthermore, the independent mill will be run by a professional, so it will be fully paid service.

Table 4. Business Model for Services Provided by the Agricultural Facility

Service	Business Model
Access information to farmers	Free service
Certification of RSPO or ISPO	Subsidized service
Agriculture inputs	Subsidized and Fully paid service
Independent mill	Fully paid service*

The five-year projection of the cashflow of the Facility can be seen in Figure xx below. We assume that the revenue stream will be mainly come from donor contribution mainly for certification. We expect to fundraise additional USD 1.1 million in the next five year on top of the existing commitment that has been secured. The revenue stream from selling fertilizers is expected to be USD 104,784 in 2019 and will increase to USD 364,756 in 2023. The expected revenue stream from the nursery unit will be smaller compared to the other program as the demand for oil palm seedling will be stagnant. The Facility will focus on other commodities; however, a study will be carried out early 2019 to detail the plan. Hence, the assumption of the revenue stream may change. Figure 2 does not include the financial assumption of Program 4 (Independent Mill) as it will involve bank loans and equity from shareholders. The expenses presented in Figure 2 are estimated based on the targets that will be delivered as listed in Table 1.

Figure 2. Five Year Financial Projection for the Agricultural Facility



In 2019, the Facility will rely on the contribution of donors particularly for Program 1. Two projects that are currently managed by INOBU will still be the main contributor to the Facility, namely the RSPO Smallholder Support Fund (RSSF) and the UNEP project implemented together with RSPO. We expect also to secure the commitment from Unilever and other donors to support the certification process. The revenue stream from Program 2 is expected to be received in October 2019.