



## Contribution of SLCA to Improve Social Performance in the Palm Oil Governance in Indonesia

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### **Abstract**

Assessing social risk to improve social performance of a business should be one of strategies to build a sustainable business, especially in a sector where social aspect plays critical role. This article will explore the added value of Social Life Cycle Assessment (SLCA) in assessing the salient social risk of Crude Palm Oil (CPO) production amid the existing standards on palm oil namely RSPO and ISPO based on the stakeholder's group. SLCA can be used as a working framework to help companies implement the S component in the ESG criteria. The use of SLCA is expected to contribute to social welfare through a business operation. As a finding from this mixed method research, the SLCA has not been widely used by oil palm plantations company. Most of the salient social risks identified in this research are already addressed by the company in fulfilling the sustainability standards. However, SLCA is a strong working framework for the company in developing the social program that in the end can help to increase the company's productivity through a sustainability strategy in line with the principles of sustainable development.

**Keywords:** *Palm Oil; SLCA; Corporate Social Performance; Social Risk; Sustainable Development*

### **1. Introduction**

The concept of “sustainable development” describes a process for increasing long-term economic well-being without compromising the ability of future generations to meet their needs. The concept of Sustainable Development is structured in the Sustainable Development Goals (SDGs) as the 2030 agenda which identifies significant business opportunities offered by the SDGs and the risks of not addressing current core social and environmental issues.

All parties are expected to play a role in sustainable development including the business sector so that the concept of sustainable business is born. Companies are expected to adopt the concept of sustainability in their business activities as a form of contribution to sustainable development practices. *Sustainability in business is defined as a voluntary activity to contribute solutions to societal and environmental problems by creating profits* (Schaltegger, Lüdeke-Freund, & Hansen, 2012) that emphasize 3 pillars that is well known as the Triple Bottom Line (TBL) which are social, economic, and environment that is interchangeable with Environment, Social, and Governance (ESG). This article is explanatory research using a mixed method to review the role of Social Life Cycle Assessment (SLCA) in improving company's social performance - the component S of ESG - of the Indonesian oil palm plantations.

The driver for businesses to consider ESG aspects in their business is mostly driven by the investor and the market. Therefore, building a sustainable business is no longer an option, but a must. According to WBCSD (WBCSD, 2020) considering ESG in the business also means the company is more resilient or less vulnerable and more resilient to shocks so far and is likely to be noticed and appreciated by investors, especially in times of crisis. In the social aspect, corporate social responsibility is a fundamental concept that has developed according to the need to build good relations between business, society, and the environment. The concept of CSR is evolving from philanthropy or charity become take responsibility for the social impact of the business operation.

Along with the need to assess the social impact of the business, there is an emerging methodology, Social Life Cycle Assessment, as the development of the Environmental Life Cycle Assessment, which measures the impact of a business process in the value chain. With SLCA, a company can identify the hotspots of social impact and develop a strategy how to mitigate the negative impact to build a sustainable business to attract the market and investors. Apart from the company's role in solving social problems, when viewed from the point of view of the need for palm oil producers to access markets, for example, several countries and buyers at the global level also require business ethics in the social aspect applied by oil palm plantation producers.

The sector taken in this study is the oil palm sector. The palm oil sector is expected to contribute to the achievement of the SDGs goals including the social aspect. The company in palm oil sector not only should have a normative commitment to bring positive change in the community but also need a strategy that can be operationalized with a strong working framework. A study identified the contribution of the palm oil industry to SDGs, and finds it contributes to 9 goals substantially, 4 important, and 1 insignificant for Indonesia SDGs (Mardiharini, Azahari, Chaidirsyah, & Obaideen, 2021). These contributions include Goal 1 (End poverty), 2 (Zero Hunger), 3 (Good Health and Well Being), 4 (Quality of education, 6 (Clean Water and Sanitation, and 7 (Affordable and Clean Energy). While other research (Chiriaco & et.al, 2022) adds Goal 5 (Gender Equality), 8 (Decent Work and Economic Growth), and 10 (Reducing Inequality) that concludes the production of palm oil makes a significant contribution to reducing poverty by increasing food security.

Amid the expectation that palm oil can contribute to overcoming gaps and inequalities within the industry, various social problems have been associated with the development of oil palm plantations. In Southeast Asia, this problem has been documented in various publications (Marti, 2008); (Marcus Colchester, 2007); (McCarthy & Cramb, 2009) Many of these issues centre on questions of land use, land and land ownership, and how rights can be transferred. Also related is the role of smallholders and the risks they face in terms of low productivity, fair prices, and access to finance and markets (Teoh, 2010). Other research (Li, 2015) revealed that the problems in the palm oil sector are the possibility of land transfer, loss of livelihoods, social conflict, degradation of customary institutions, exploitative work relationships, and degraded ecosystems. The expansion of palm oil also has exacerbated social inequalities (Chiriaco & et.al, 2022)

This article will explain whether SLCA has added value in addressing the social problems through assessing the salient social risk of a CPO production amid existing standards on palm oil such as RSPO and ISPO that also cover social components that the company should comply with.

In Indonesia, through Regulation of The Minister of Agriculture No.38 Year of 2020, the palm oil company should implement sustainable palm oil principles through the Indonesia Sustainable Palm Oil (ISPO) instrument. In addition, there is also Presidential Regulation No. 44 in the Year of 2020 on the Certification system in the palm oil sector in Indonesia. This study will look at the criteria set by Indonesia Sustainable Palm Oil (ISPO) with the assumption that ISPO has examined local norms including socio-economic developments in Indonesia. While RSPO develops and implements global standards for the production and procurement of sustainable palm oil that cover the environmental and social impacts of palm oil production, such as seed, chemicals and water, and social impacts related to on-farm labor and community relations.

Therefore, this article will examine how SLCA can bring added value to increase social performance of Crude Palm Oil (CPO) producers.

## **2. Material and Methods**

### **2.1 Materials**

The study used data from the UNEP SETAC SLCA Methodological Sheet and relevant sources such as the company's Sustainability Report, survey, and interviews to workers, companies, to identify the role of SLCA in promoting social performance, and interview with CSO, standardization agency, and government to identify the expected role of companies in contributing to SDGs.

This study will also look at the history of the development of oil palm plantations in Indonesia, where in history there was the first nucleus-plasma partnership concept by the Indonesian government which was initially funded by the World Bank through the Nucleus Estate and Small Holders (NES) I–VII project. The partnership concept eventually gave birth to the Nucleus Estate Scheme (PIR) in 1978. The PIR partnership pattern, which has been implemented since 1978, is considered effective for the welfare of oil palm smallholders. In this partnership pattern, smallholder oil palm plantations and corporations will grow side by side where corporations play an important role in developing and guiding plasma (community plantations). The advantage of the partnership pattern for companies is that there is a certainty of supply, while for gardeners there is market certainty and price in selling FFB (fresh fruit bunches).

Merlung District, the object of this research, has 37,991 heads of households who are oil palm farmers or has 51% of the total commodity farmers in Tanjung Jabung Barat District. During the 2019-2020 period progress in human development was in West Tanjung Jabung Regency (0.00 percent), while in other districts there were three districts with the fastest progress in human development, namely East Tanjung Jabung Regency (0.80 percent) with an area of 33,872 oil palm plantations ha, Kerinci Regency (0.37 percent) with an area of oil palm plantations of only 84 hectares, and Muaro Jambi Regency (0.25 percent) with an area of oil palm plantations of 135,402 hectares. Thus, at a glance, it can be concluded that oil palm plantations do not have a major influence on increasing the Human Development Index.

The main unit of analysis was the corporate performance, of the plantation companies located in West Tanjung Jabung Regency, Jambi Province, Indonesia where there are state-managed oil palm companies (Company B) and private estates (Company A). Company A has palm oil plantation of 93,879 Ha of own estate, 52,893 Ha with plasma scheme smallholders, and 42,319 Ha independent smallholders involved in smallholder's empowerment program, while Company B has a palm oil plantation of 5,004.92

Ha. Company B has 508 employees. In addition, in Jambi, around 31% of palm oil companies in Jambi have social conflicts.

This article will review the use of the SLCA approach that is developing at the global level in improving the welfare of smallholders in the oil palm plantation sector and other parties along CPO production as a company's social performance effort. Therefore this type of research is explanatory research because it reviews SLCA as an approach to improve the social performance of Indonesian CPO producers.

## 2.2 Methods

Mixed methods were chosen because they have advantages through triangulation, complementarity, development, pioneering, and expansion. Triangulation and complementarity are needed to support better conclusions, while the other three functions provide questions to be answered by the next stage of the method.

The qualitative method is more dominant followed by the less dominant quantitative method. Qualitative research provides basic information about context and subject through interviews and desk research to find what is most needed. The findings were then investigated further by conducting a survey to empirically test the findings in the interviews. The aim is that what is found in qualitative research can be applied at a larger sample level, and in the end, it can be generalized at the population level.

The study has some limitations on a field visit, limited supply chain actor, and reliability of the data.

## 3.Result and Discussion

The SLCA, developed by the UNEP and Life Cycle Initiative, divides stakeholders into six categories namely, workers, consumers, local communities, supply chain actors, society, and children. Each category, chosen based on discussions among experts, has subcategories. Stakeholder groups are the major groups potentially affected by the life cycle of a product. This article examines each sub-category to identify hotspots, based on interviews, desk research, surveys, and focused group discussions.

### 3.1 Workers

In the workers stakeholders group, the three subcategories namely, smallholders including farmers, Freedom of Association (FoA), and social benefit/social security, have same amount of identified salient social risks (hotspot).

- The *social benefit* is considered important mostly by smallholders and NGOs. Social benefits include health insurance, medical insurance, maternity leave, paid maternity leave, education, and training. In practice, Company A has provided insurance, performance bonuses, incentives, allowances (such as house, car), and scholarships to its employees.

Tabel 1. Salient Social Risk for Subcategories of Social Benefit for Workers Group

Salient Social Risk	RSPO (2018)	ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Social benefit for workers	Ensuring the health and safety of workers, regulating health services and accident insurance and Lost Time Accidents.	<ul style="list-style-type: none"> <li>• The principle of responsibility towards workers</li> <li>• Criterion 4.3 Increasing the welfare and capabilities of workers with</li> </ul>

	<p>Criteria 6.7 The unit of certification ensures that the working environment under its control is safe and without undue risk to health. (Continued).</p> <p>The RSPO is considering incorporating the Principles and Criteria [P&amp;C] towards 'Decent Living Wages (DLW)' by 2023 and more stringent criteria such as child rights and protection such as providing on-site educational facilities for workers' children; engage with other nearby companies to improve public education provision, and support local school systems through public-private partnerships that can fund maintenance, and help organize teacher training or supplement teacher salaries, and prohibit any form of child labour. For DLW, it is not stated explicitly regarding health insurance, but it is said that every worker has the right to a decent living, which is sufficient for the health and well-being of himself and his family referring to the Universal Declaration of Human Rights.</p>	<p>indicators of the availability of facilities and infrastructure for worker welfare, involving workers in the SJSN program in accordance with laws and regulations, list of workers participating in the BPJS Employment program (this refers to the laws and regulations in force in the Republic of Indonesia such as the issue employment (wages, salary/wages system, freedom of association, industrial/work relations, BPJS or health &amp; employment insurance)</p>
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The revised RSPO Principles and Criteria [P&C] for the Production of Sustainable Palm Oil in 2018 include Decent Living Wage (DLW) and the more stringent criteria such as rights and protection of children, providing on-site education facilities for workers' children, engaging with other companies in the vicinity to improve the public provision of education, supporting the local school system through a public-private partnership that might fund maintenance, helping to organize teacher training or top-up teacher salaries, and prohibiting any form of child labor.<sup>1</sup> For the DLW, the RSPO does not explicitly includes health insurance, but states that every worker has the right to a decent standard of living, which is sufficient for the health and well-being of themselves and their family, referring to the Universal Declaration of Human Rights. A clause in Article 25 of the UNHR says that "Everyone has the right to a standard of adequate living for the health and well-being of himself and of his family, including food, clothing, housing, medical care, and necessary social services", where medical care can be included in health facilities. Meanwhile, in the ISPO, although not explicitly stated, the provision of social benefits is included in the principle of responsibility for workers, and seven related to social responsibility and community economic empowerment. It was observed that palm oil plantations have a significant contribution to access to education for workers' families in providing education and health facilities.

<sup>1</sup> <https://www.thejakartapost.com/adv/2021/08/30/rspo-boosts-role-in-helping-children-of-plantation-workers-access-education.html>

- *Smallholders including farmers*, are considered important, especially smallholders and NGOs. Indicators for smallholders include livelihoods and welfare, inclusiveness, productivity, access to services (such as fertilizer and credit), trade relations (including knowledge about certification), and continuity of generations of oil palm smallholders. In this case, company A Helped Smallholders become First in Country to Earn RSPO Certification. Company A built partnerships with third parties to help set up committees based on individual members' skills and knowledge, including compliance, marketing, training, health, and safety. An MOU was signed with Company A, where the members agreed to sell their fruit to the company in exchange for training and access to loans and fertilizers. The company benefited from a reliable supply, while smallholders benefited from training and faster fruit processing. In terms of supporting Independent Smallholder groups, Company B purchases physical Fresh Fruit Bunches and provides operational support, education and training, and community development. Company B also provides soft credit loans for small and medium enterprises (MSMEs). The training included management and production training, assistance in marketing, and capital through soft loans.

Tabel 2. Salient Social Risk for Subcategories of Smallholders including farmers for Workers Group

Social salient risk	Principles and Criteria in RSPO (2018)	Principles and Criteria in ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
<i>Smallholders including farmers</i>	<p>RSPO Principle No. 3 concerning Optimizing productivity, efficiency, positive impact and resilience</p> <p>Criterion 3.1 There is an implemented management plan for the Unit of Certification that aims to achieve long-term economic and financial viability and</p> <p>3.4 All workers and smallholders of the unit of certification are appropriately trained.</p>	The principles of social responsibility and economic empowerment, however, there are no specific criteria governing this subcategory.
	<p>Principle No. 5 on Supporting Smallholder Inclusion</p> <p>Criterion 5.2 The Unit of Certification supports the inclusion of smallholders in the sustainable palm oil value chain to improve their livelihoods.</p>	

This suggests that the RSPO acknowledges the importance of smallholders as an inclusively part of the business model of the company. In the ISPO, the involvement of smallholders is included in the principles related to social responsibility and economic empowerment.

In a policy brief (Prakarsa, 2021)<sup>2</sup>, it is said that in the RSPO/ISPO certification mechanism, there is indeed an assessment to assess the extent to which the company applies the principles of sustainability,

<sup>2</sup> <https://responsibank.id/media/497625/policy-brief-29-pemenuhan-hak-buruh-sawit-salah-satu-pilar-perkebunan-berkelanjutan.pdf>

which include fulfilling labor rights; however, assessors are often judged to be less pro-laborers (Gottwald, 2018).

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- o **Freedom of Association (FoA)** is considered important, mostly by NGOs and companies. This covers the right to organize themselves, including the right of workers to strike, the rights of organizations to draw up their constitutions and rules, to elect their representatives in full freedom, to organize their activities freely, and to formulate their programmes (UNEP; SETAC; Life Cycle Initiative, 2013). Both companies A and B give the rights to employees and smallholders to form and join smallholders' associations.

Tabel 3. Salient Social Risk for Subcategories of Freedom of Association for Workers Group

Social salient risk	Principles and Criteria in RSPO (2018)	Principles and Criteria in ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
<i>Freedom of Association (FoA)</i>	Criterion 6.3 which covers freedom of association and the right to collectively bargain in Indonesian from the certification unit that is published, explained to all workers and implemented as well as the existence of minutes of meetings between the certification unit and the Trade Union	Principle 2 regarding the application of good farming practices with the following criteria: Farmers organization where smallholders can join farmer groups or cooperatives  Regarding labor responsibilities, the criteria (article 4 (4)) include documents for forming a workers' union and meeting between plantation business actors and the union and implementing the policy, a list of workers' union members, mechanisms for submitting opinions and complaints, gathering policies, forming or joining in organization or labor union.

RSPO states these rights in Principle 6 on Respect Worker's Rights and Condition Criteria 6.4, where the Unit of Certification shall respect the rights of all workers to form and join trade unions, associations of their choice, or worker organizations with their own representatives to bargain

<sup>3</sup> <https://responsibank.id/media/497625/policy-brief-29-pemenuhan-hak-buruh-sawit-salah-satu-pilar-perkebunan-berkelanjutan.pdf>

collectively. In a study entitled Violations of Palm Oil Plantation Workers' Rights (Prakarsa, 2021)<sup>4</sup>, found a number of violations of workers' rights in palm oil plantations in three large-scale companies in West Kalimantan and Central Sulawesi, where one of the violations found was limiting freedom of association.

### 3.2 Consumer

In the consumer group, the hotspot was transparent. Respondents, especially companies and standardization agencies, said that the transparency component is a hotspot for companies to measure their social impacts in the consumer category. This subcategory assesses specific certification standards, labels, and indices that can be used to provide information about social responsibility-related performance. This subcategory assesses whether the organization communicates all issues related to its products and social responsibilities in a transparent manner.

Tabel 4. Salient Social Risk for Subcategories of Transparency for Consumer Group

Social salient risk	RSPO (2018)	ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Transparency	Principle 1. Behave ethically and transparently In particular criterion 1.1 The unit of certification provides sufficient information to relevant stakeholders on environmental, social and legal issues relevant to the RSPO Criteria, in appropriate languages and forms to enable effective participation in decision-making, and 2.3 The supply of FFB from outside the unit of certification comes from legal sources.	Principle 6 Implementation of Transparency with the following criteria: 1. Source of TBSD is known 2. Calculation of K Index and transparent supporting data 3. Implementation of fair and transparent FFB pricing 4. Disclosure of non-confidential information and handling of complaints 5. Have a commitment not to take actions that could indicate bribery 6. Have a traceable supply chain system

Both RSPO and ISPO certificates are a way for CPO producers to implement the principle of transparency in their production process to buyers or markets, both global and local.

Even though transparency is considered important by the parties, the ISPO has not regulated this subcategory in detail. Company B regularly issues Annual Reports but does not yet have a sustainability report, which can be an effort for transparency for the company. How a company is socially responsible is explained in the Annual Report, but matters that become materiality related to products and social responsibility have not been disclosed in Company B's Annual Report.

With the existence of OJK Regulation (POJK) Number 51/POJK/03/2017 concerning the Implementation of Finance For Financial Services Institutions, Issuers and Public Companies, it is hoped that in 2020, Company B will have a Sustainability Report. Company B carries out standardization and certification other than ISPO (Indonesian Sustainable Palm Oil) and RSPO (Roundtable on Sustainable Palm Oil), namely, ISCC certification (*International Sustainability & Carbon Certification*), ISO

<sup>4</sup> <https://responsibank.id/media/497625/policy-brief-29-pemenuhan-hak-buruh-sawit-salah-satu-pilar-perkebunan-berkelanjutan.pdf>



(*International Organization for Standardization*), RA (*Rainforest Alliance*), PROPER, Halal Certification.

Company A has published a sustainability report that presents sustainability issues in a transparent manner in its business processes. To its consumers, the company emphasizes its openness to traceability and GHG emission reduction through individual communication. In 2017, the company established a traceability department to support the process of making supply chains more traceable. This has allowed the company to achieve 100% traceability of FFB to plantations in a phased manner, starting in September 2017. Indicating that all FFB supplied to mills is traceable to the source, ensuring that companies do not process FFB from protected areas. Company A also has certification for on-site implementation from RSPO, ISPO, ISCC, Conservation, ISO 14001, and PROPER for EMS.

Transparency is on Principle 1 of RSPO on “Drive ethical business behavior, build trust and transparency with stakeholders to ensure strong and healthy relationships”. It also appears on Principle 4 on Respect Community and Human Rights and Deliver Benefits on Criteria 4.3 on Contributions to local sustainable development should be based on the results of consultation with local communities that should be based on the principles of transparency, openness and participation, and should encourage communities to identify their own priorities and needs, and on criteria 4.5 on transparency of the land allocation process, and also criteria 5 on Support Smallholder Inclusion where Current and previous period prices paid for FFB are publicly available and accessible by smallholders. In ISPO, transparency refers to the principle of labor responsibility, which includes sales transparency and price agreements for fresh fruit bunches (FFB), and the provision of data and information. FFB requires FFB price documents and local transaction documents. The legal basis for fixing the price of palm oil FFB is regulated by the Minister of Agriculture Number 14 of 2013 concerning Guidelines for Setting the Price of FFB produced by smallholders, which regulates the purchase price of FFB produced by smallholders by plantation companies or by palm oil mills.

Although the Regulation of the Minister of Agriculture Number 14 of 2013 concerning Guidelines for Setting the Price of Palm Fruit Bunches aims to provide protection in obtaining a fair price for the FFB produced by smallholders, and avoid unfair competition between Palm Oil Mills (PKS), this regulation only provides guidelines or the formula for the purchase price and the establishment of a Price Determination Team, even guidance for smallholders and their institutions is left to the plantation company. The FFB purchase price policy remains under the partnership umbrella, which refers to legislation and regulatory products on plantations; in practice, this partnership is still understood under the nucleus-plasma umbrella. Thus, independent smallholders have difficulty accessing price protections.<sup>5</sup>

### 3.3. Local Community

In the local community group, the observed hotspots were *safe and healthy living conditions* and *community engagement*. This subcategory is considered important by the company, standardization agency, and local community.

- The *safe and healthy living condition* sub-category assesses public safety and possible impact of business activities on public safety and frequency of accidents, for example, through equipment or structural failures, natural disasters such as landslides, disease, or pollution that can endanger the surrounding community. Company A has a two-pronged strategy for fire prevention and management, including the Zero Burning and No Peat Policy and Fire Free Village Program to strengthen awareness about fire risks among the local community as a preventive approach. Company B was committed to preventing forest and land fires.

<sup>5</sup> <https://spks.or.id/detail-berita-kebijakan-harga-tbs-produksi-pekebun-sudah-seharusnya-di-cabut>

Tabel 5. Salient Social Risk for Subcategories of Safe and Healthy Living Condition for Local Community

Social Salient Risk	P&C RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
<i>Safe and healthy living condition for local community</i>	<p>Healthy living conditions are implicitly part of RSPO Principle 7 on Criterion</p> <p>7.1 regarding Pests, diseases, weeds and introduced invasive species,</p> <p>7.2 regarding pesticides,</p> <p>7.3 regarding waste management,</p> <p>7.4 regarding soil fertility,</p> <p>7.5 regarding erosion control and soil degradation,</p> <p>7.8 regarding maintaining the quality and availability of surface and ground water,</p> <p>7.10 Plans to reduce pollution and emissions, including greenhouse gas (GHG) emissions, are developed, implemented and monitored and new developments are designed to minimize GHG emissions, and</p> <p>7.11 regarding restrictions on the use of fire. Plans to reduce pollution and emissions, including greenhouse gas (GHG) emissions, are developed, implemented and monitored and new developments are designed to minimize GHG emissions.</p>	<p>In ISPO this is implicitly regulated in the criteria 3 letter c for management of the environment, natural resources and biodiversity which includes:</p> <p>a. implementation related to environmental permits; b. waste management; c. interference from a stationary source; d. waste utilization; e. management of hazardous and toxic materials (B3) and B3 waste; f. fire and disaster control g. protected areas and areas of high conservation value</p>

Healthy living conditions are implicitly part of Principle 7 of RSPO on Criteria 7.1 on pests, diseases, weeds, and invasive introduced species, 7.2 on pesticides, 7.3 on waste management, 7.4 on soil fertility, 7.5 on control of erosion and degradation of soils, 7.8 on maintain the quality and availability of surface and groundwater, 7.10 Plans to reduce pollution and emissions, including greenhouse gases (GHG), are developed, implemented, and monitored, new developments are designed to minimize GHG emissions, and 7.11 on restricted use of fire. In ISPO, this is implicitly regulated in the criteria 3 (c) for management of the environment, natural resources, and biodiversity, which includes implementation related to environmental permits, waste management, interference from a stationary source, waste utilization, management of hazardous and toxic materials (B3) and B3 waste, fire and disaster control, and protected areas and areas of high conservation value.

- The *community engagement* subcategory assesses whether an organization includes community stakeholders in relevant decision-making processes, and considers the extent to which the organization is involved with the community in general. SLCA encourages community engagement. Companies should consider individuals or community groups that may be affected by their actions or products in the development and implementation of business policies, particularly those that may affect the local environment, health, and well-being. Company B involves surrounding community through the PKBL and TJSL programs. In the palm oil sector, the company lives among the community, which on one hand are the workers and, on the other hand, are the supporters of economic activities of the working families. Thus, realizing corporate responsibility towards the social environment, PTPN in research also reaches the community around the business unit through various activities in the field of education, such as training and internships (Annual Report, 2018). Meanwhile, Company A contributes to infrastructure development, such as places of worship, in addition to providing support for various cultural or sports activities to interact with the surrounding community and be involved in the Fire Free Village Program. However, this program has not yet reached the company area of West Tanjung Jabung Regency. Company A also uses Free, Prior & Informed Consent (FPIC) as a framework for all the community engagements in its operational area.

Tabel 6. Salient Social Risk for Subcategories of Community Engagement for Local Community

Salient social risk	P&C RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Community engagement	<p>Criterion 4.3 The unit of certification contributes to sustainable local development as agreed by local communities.</p> <p>There should be records of the company's contribution to local development based on the results of consultation with the local community.</p>	<p>Principle 5 for social responsibility and community economic empowerment with criteria</p> <p>5.1 social responsibility;</p> <p>5.2. empowerment of customary law communities/indigenous people; and</p> <p>5.3. local business development</p> <p>Indicator:</p> <ol style="list-style-type: none"> <li>1. Has a program to improve the welfare of the surrounding community</li> <li>2. There is a program to improve the welfare of the surrounding community based on the results of program identification</li> <li>3. Establish a measurable annual work program together with the surrounding community as a form of corporate responsibility</li> </ol>

Neither the ISPO nor RSPO specifies the form of community engagement. The aspect of community involvement is in the Principle 4: Respect community and human rights and deliver benefits criterion 4.3, which states that companies contribute to sustainable local economic development, as agreed upon by local communities, where consultation with local communities is a non-critical indicator. In this ISPO community engagement implicitly, Principle 6 encourages programs to improve the quality of life and the environment that benefit plantation companies, local communities, and society in general, encouraging business partnerships, development in educational activities, road construction, and others, encouraging the preservation of local wisdom and the realization of programs with indigenous people.

### ○ Local Employment

Local recruitment preferences provide important income and training opportunities for community members. Local employees have unique knowledge of important community issues and can help organizations build strong community relationships. Organizations that seek to build transferable business skills among employees will promote sustainable development because this knowledge can eventually be transferred to locally owned organizations (UNEP, SETAC, Life Cycle Initiative, 2021).

Tabel 7. Salient Social Risk for Subcategories of Local Employment for Local Community

<b>Social Salient Risk</b>	<b>RSPO (2018)</b>	<b>P&amp;C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)</b>
Local employment	There are no specific criteria for promoting local employment	There are no specific criteria for promoting local employment

Both ISPO and RSPO do not have specific criteria for promoting local employment.

In the subcategory of local employment, for non-core works, PT B has contractual work with vendors that are used to hire local people. While PT A, during peak harvest seasons, additional labor is often required to harvest or transport fresh fruit bunches (FFB), or in times of major pest or disease outbreaks that require immediate action. During certain periods of the planting cycle, PT A also looking for temporary seasonal contract workers. During low harvest seasons, these temporary workers may be allocated to work in areas such as fertilizing, fertilizing, and weeding.

Interestingly, access to material and immaterial resources is a salient social risk (hotspot) for local communities but not for other stakeholders. It will be interesting to observe further practice of this subcategory in the field.

### 3.4 Supply Chain Actor

In the supply chain actor, hotspots promote social responsibility and wealth distribution. The promoting social responsibility sub-category assesses whether the company manages its suppliers in a socially responsible manner, including monitoring, auditing, and training efforts, and whether it takes corrective action against suppliers, whenever necessary. Suppliers in CPO production includes fertilizer supply companies, machine providers, and others. Unlike other sectors, individual farmers can also be categorized as suppliers in the oil palm plantation sector. This study does not cover supply chain actors other than individual smallholders, and focuses on corporate social responsibility for individual smallholders. Company A helps their independent smallholders to achieve ISPO certification and have a further 5,000 RSPO certification achieved smallholders, and engages smallholders to implement sustainable farming practices and improve their livelihoods. Company A also works with partners to assist the company in collecting data from independent smallholders due to the difficulties of independent smallholders in obtaining FFB traceability data to be more efficient and accurate. Meanwhile, no social responsibility program for its suppliers was observed for company B.

Tabel 8. Salient Social Risk for Subcategories of Promoting social responsibility for Supply Chain Actor Group

Salient social risk	P&C RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Promoting social responsibility for supply chain actor	Criterion 3.7 All staff, workers, Smallholders, outgrowers and contract workers are appropriately trained with the following indicators: A documented training program is in place, which is accessible to all staff, workers, Smallholders and contract smallholders, taking into account gender specific needs, and which cover applicable aspects of the RSPO Principles and Criteria, in a form they understand, and which includes training assessments	Criteria for the implementation of good farming practices which include institutional organization and management of smallholders

Both ISPO and RSPO do not discuss other supply chains than smallholders and outgrowers. According to RSPO Impact Report (2017) there is a 38 percent decrease of certified independent smallholders in Indonesia compared to the previous year, largely due to licenses expiring. This shows that independent smallholders simply lack the resources to afford and maintain certification, therefore they should be given appropriate training. Almost the same criteria with ISPO, social responsibility to these actors according to ISPO are on criteria for ensure good farming practices on smallholders which include institutional organization and management of smallholders, and to maintain their sustainable certification. Although the smallholders receive help either from NGOs or the private sector, the effect is not likely to last. They will find it difficult to maintain their sustainable certification once support from an NGO or company is no longer available.

- Wealth Distribution

Subcategory of wealth distribution is also a salient social risk in this group of suppliers. Since 1998 PT A has had conflicts with local communities that provide land. They demanded that PT A return their land because they did not feel the economic change. The community admits that they have lost because they have lost productive space to cultivate land and the necessities of life (Laia, 2021).

Tabel 9. Salient Social Risk for Subcategories of Wealth Distribution for Supply Chain Actor Group

Social Salient Risk	RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Wealth distribution	Does not have specifics criteria regarding the distribution of wealth	Does not have specifics criteria regarding the distribution of wealth

### 3.5 Society

In the society group, the hotspot is in public commitment to sustainability issues. The research results show that stakeholders see the Public Commitment to Sustainability Issues as a salient social risk (hotspot) for companies.

This subcategory assesses the degree to which an organization is involved in reducing its sustainability impact. Sustainability reports can be an indicator that the company has committed to carrying out sustainable business practices, including the company's participation in implementing/signing the Principles or other codes of ethics.

Tabel 10. Salient Social Risk for Subcategories of Public Commitment for Sustainability Issues for Society Group

Salient social risk	P&C RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
Public commitment to sustainability issues	All the RSPO criteria aim to guide companies to be sustainable. A certified company means the company has made efforts to be sustainable.	Principle 7 sustainable business improvement, with the following criteria: 1. Have a system to monitor and update the validity period of all legal documents 2. Having measurable social responsibility and community economic empowerment programs for a certain period

Both the RSPO and ISPO encourage CPO producers to adopt good business practices that adhere to the principles of sustainability. By meeting the ISPO and RSPO criteria, it was shown that the company was committed to implementing the principles of sustainability. Therefore, there is nothing new or unique to the SLCA approach in this subcategory of the palm oil sector. In the implementation of this subcategory, Company B targets 100% RSPO certification for its Fresh Fruit Bunch (FFB) by 2022, while Company A has been a member of the RSPO since February 2006; as of 2021, the company has achieved 86% RSPO certification for its own nuclear plantations and 18 of its 21 mills are RSPO certified. Company A's area is already 100% RSPO-certified for scheme smallholders.

### 3.6. Children

In the child group, the salient social risk is related to *education to the local community*. This subcategory aims to assess the presence, quality, level, and type of education fostered and provided to children.

Tabel 11. Salient Social Risk for Subcategories of Education to the local community for Children group

Salient social risk	P&C RSPO (2018)	P&C ISPO (Regulation of The Minister of Agriculture No.38 Year of 2020)
<i>Education to the local community for children</i>	Does not have specific criteria for children's education in the local community.	Does not have specific criteria for children's education in the local community.

Company B provided a scholarship to the local community. Through Company B's program, the company has distributed 52 scholarships in 2021, up from 31 two years ago to students from elementary school to university, although both ISPO and RSPO do not have specific criteria for children's education in the local community. Research from UNICEF (UNICEF, 2016) revealed that palm oil plantations have an impact on children's education and development.

### 3.7 Critical Stakeholder Groups

For the critical stakeholder group, based on the survey, *workers* and *local community groups* are the most important groups that the palm oil company should pay attention to if they want to improve their

social performance. This importance is also supported by the RSPO in their standard requirements. Social and environmental aspects have the largest proportion in the RSPO criteria, with workers and the local community being the focus on social aspects. Social challenges in the oil palm plantation business include displaced communities, loss of income, and dependence on large plantations, which have a significant impact on the people welfare, employment issues, and social conflict. If you look at these issues, social problems are indeed present in the working group and local community. Moreover, this sector has many workers. Local community groups are critical because of the risk of social conflicts. Conflicts can lead to a reduced supply of CPO. These conflicts are mostly associated with tenure rights, unclarity in partnership schemes, and Fresh Fruit Bunch (FFB) prices. A study revealed that a conflict can have tangible costs such as reputational damage and violence costs (to property and people) for business, whereas the real costs of social conflict range from USD 70,000 to 2,500,000. (Barreiro, V, et.al , 2017)

Based on the survey, respondents agreed that the tool that specifically identifies social impacts throughout the CPO life cycle (SLCA) is very important to be encouraged, even though there are already standards for sustainable palm oil, such as the RSPO and ISPO. This is because three are hotspots that are still untouched by these two standards, such as the education of children to the local community and promoting social responsibility within the Supply Chain Actor group.

Based on the survey, the respondents agreed that the current policies are sufficient to encourage social performance in encouraging sustainable CPO production. In promoting sustainable palm oil, the Indonesian government has implemented many policies, such as Presidential Regulation Number 44/2020 concerning the Indonesian Sustainable Palm Oil Plantation Certification System, Minister of Agriculture Regulation No. 19/Permentan/OT.140/3/2011 juncto No. 11/Permentan/OT.140/3/2015 concerning the Indonesian Sustainable Palm Oil Certification System (ISPO), Minister of Agriculture Regulation No. 38 of 2020 concerning the Certification of Sustainable Indonesian Palm Oil Plantations, and regulations at the sub-national level that have contributed to the Action Plan for Sustainable Palm Oil Plantations. This was considered sufficient by the respondents. What is needed is the implementation and enforcement of law. Many policies have not been implemented or enforced in this field, as observed from the fact that there are still many plantation land conflicts that have not been resolved because of weak criminal law enforcement for companies that have seized community land. A study revealed that many are still in favor of the interests of 13 plantation companies on the pretext that this is in accordance with statutory provisions.

Violations of palm oil workers' rights also occur because of weak labor inspections. Another factor that causes violations of palm oil workers' rights is the absence of regulations that specifically regulate the protection of plantation workers.

## **4. Conclusion and Recommendation**

### **4.1 Conclusion**

SLCA can help companies to identify their salient social risk and develop the ESG implementation strategy throughout the CPO product life cycle as a manifestation of social development at the organizational level, although not much novelty is brought by the SLCA subcategory.

Most of the subcategories that are the hotspots identified in this research are already covered by palm oil sustainability standards (ISPO and RSPO). However, it helps the company to develop a strategy to address the salient social risk in a more structured way and become part of the business model systematically, not only a normative commitment or being reactive to the request from the local community.

For the company that has not obligation to comply with RSPO due to market requirement, some sub categories provides more detail criteria. Such as on Workers with subcategories on Smallholders including farmers, on local community for subcategory of local employment, on supply chain actor for subcategory of wealth distribution, and on Children stakeholder group, on subcategories of education at the local community, it clears that SLCA brings novelty for both standards.

However, although it does not bring much novelty, SLCA with its stakeholder approach, helps companies to understand risk in their stakeholders group to improve their business continuity. In this study, SLCA is used to review the social performance of the two companies based on the salient social risk (hotspot) in the sector. The SLCA subcategory can answer the challenge of the lack of understanding and company policies regarding the concept of sustainability in Indonesia, in terms of shared understanding of the basic concept of sustainability in palm oil sector. In addition, this subcategory can also answer the challenge of the weak substance of principles, criteria and indicators which are considered by some to reflect more national interests and are also unable to answer weaknesses in the criteria.

The real challenge is that in Indonesia, social performance has no effect on Market to Book Value (MBV) (Yawika & Handayani, 2019). Currently, the considerations of Indonesian investors are still focused on financial performance although there are some discourses on sustainability. In addition to the unstable market conditions, the facilities provided by the government regarding sustainable investment are still minimal. Similar to previous research, the factor that investors in developing countries pay most attention to is financial performance and does not take long-term sustainability into account, so it is impossible to find a relationship between social responsibility and financial performance (Aras, Aybars, & Kutlu, 2010). In addition, the disclosure will be neutral news for investors, when their statement is at least without facts, that the disclosure shows support for the company's financial performance. Therefore, social performance has no effect on economic performance (Yawika & Handayani, 2019). Thus, at this time, maybe the company's efforts to encourage its social performance are not attractive if the aim is to attract investors in the stock market. However, if the company's social performance is viewed from the angle of mitigating the risk of social conflict, this effort has more economic value.

## **4.2 Recommendation**

From the findings obtained from this study, there are several recommendations that can be utilized for the effectiveness of SLCA implementation in the palm oil sector.

### **4.2.1 Recommendation for government**

- Government regulations and the financial sector need to pay attention to the social welfare of farmers.
- Granting of permits to companies which eventually led to land disputes and social conflict was seen by the community as the policy for the development of the oil palm plantation industry was still in an unfair situation. So that the use of tools such as SLCA which can help companies identify potential impacts on their business needs to be encouraged.
- The government also needs to encourage responsible investment, so that investors do not only focus on financial performance alone, but also on social performance. Synchronization between government programs such as the Social Forestry program, the Ministry of PDT, the Ministry of Agriculture, and companies can speed up solving social problems. For example, village funds can be combined with company funds in one joint program for communities around oil palm companies at tier 2 or 3.
- Seeing the market's crucial role in encouraging responsible business, the government can play a role in educating the public about the importance of responsible consumption. The Green Public Procurement Policy that provides a market is a measure that can be replicated and applied to the palm oil sector.



#### **4.2.2 Recommendations for Standardization Bodies**

- ISPO is a good step, but the existing criteria and indicators need to be ensured that they can answer social and environmental problems in the palm oil sector.
- The standard for sustainable palm oil needs to look at the operational impact of oil palm plantations on access to material and immaterial resources by the local community, where this is considered important but not critical for other stakeholders.
- Other than the stakeholders group defined above, women group should be also added for palm oil sector, although women already considered in RSPO Principle 4 on Respect community and human rights and deliver benefits, Principle 5 on Support Smallholders Inclusion, and Principle 6 on Respect Workers' Rights and Conditions. Gender inclusivity to ensure participation of women should be one of the keys to development, part of systemic change toward sustainability. A study shows although of the time women are also in charge of figuring out to generate extra household income as well as helping out in the plantation, some of the women active in the Farmers' Field School (FFS) and Financial Capability (FC) training (Mardiharini, Azahari, Chaidirsyah, & Obaideen, 2021). In addition, the plantation also gives a different impact on women such as on safety and sexual harassment, risk of being exposed to violence, or not well paid. In some situation, woman also are forced to travel long distances to find arable lands to cultivate due to loss of lands, forests and water sources. Another impact is due to hazardous tasks especially when applying agrochemicals that can create serious health issues.

#### **4.2.3 Recommendations for Smallholders**

- Existing cooperation schemes need to be studied further by considering long-term inflation so as not to experience losses
- In view of price issues which are one of the causes of conflict between farmers and companies, farmers as suppliers must be actively involved in price setting. Farmers' unions can be one way to negotiate prices. Production costs, loan size etc. need to be considered in determining the selling price of FFB.
- Oil palm farmers need to learn and utilize technology and innovate to increase land productivity, not being too dependent on buying companies. All parts of the oil palm should be utilized, such as biomass, etc.

#### **4.2.4 Recommendations for CPO Producers**

In ensuring the sustainability of a business, not only environmental aspects and the availability of natural resources need to be taken into account. The concept of sustainable development also sees social aspects as an important part of development, including in a business. Companies need to see human capital and social factors as things that need attention, because a business cannot survive in a failing society.

#### **4.2.5 Recommendations for SLCA Developer**

In addition to indicators that apply generally, it is necessary to make specific indicators per sector, as in this study, for the palm oil sector. The proposed additional indicators are expected to assist companies in identifying the social impacts of their business operations as well as playing a role in social development.

#### **4.2.6 Recommendations for the Community**

All individuals can play a role in preserving the environment and contributing to social welfare and economic growth. Consuming products that are produced or processed in a sustainable manner can

encourage the business sector to pay more attention to the environment, social and economy. Therefore, every individual in society needs to have a lifestyle that encourages this sustainable development, starting from buying products that are certified or have a sustainability label.

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