

KULIM – CHALLENGING INDONESIA

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Mr. Chairman, colleagues, ladies and gentlemen, I would like to start by saying how delighted I am to be here, in Mosa, by the clear blue waters of Kimbe Bay, and to be invited to address this conference. We have just heard an excellent keynote address this morning, and we are all set now to having a stimulating and demanding conference! Later this afternoon, I am looking forward to hearing what my fellow panelists, will have to say about this paper, and to the open discussion that will follow.

This time around, speeches were centered mostly around our commitment towards `sustainable development' which challenged us to think about how we, as an industry, could better combine sustainability, affordability and creativity. That way, we could further deepen and improve our markets, expand them, and do so with due regard for the environment especially and for the betterment of the society generally.

Ladies and Gentlemen, today, I would like to pick up where others left, and to ask just how we can move from managing the complex and often difficult issues affecting our business in Indonesia.

Beginning with a vivid picture of the Indonesian economic recovery amidst her macroeconomic, financial and political development and a look at the challenges or external forces driving our strategic decisions, this paper moves on to the real issues that would have some impact on our investments and our company at large.

Other smaller or lighter issues confronting our investment activities would be briefly narrated as I passed through the more relevant details on challenges, presented in this paper.

INDONESIA – A QUIET RECOVERY

We are familiar with the encouraging rise of Malaysia as a serious business center in the past few months. But the same could be said for Indonesia admittedly from further back with a quiet recovery. Since the riots that downed Soeharto, the uneasy reform rule of Abdulrahman Wahid, as political heavyweights jockeyed for position behind the scenes, and the increasing attention on Islam extremism since 9/11, many have written off Indonesia.

Yet Indonesia offers some of the best opportunities in the region. Poverty is still endemic, politics is less than stable, and separatist movements get all the headlines overseas. On the other hand, natural resource-heavy Indonesia has seen their stock market showing gradual recovery, and they remain a strategic market of well over 200,000,000 for foreign companies. Their boom time fuelled a modern capital, and a business population used to working with foreigners.

But to really see the reality you have to go there. There is a challenge to do business here in Indonesia. Indonesia is too important to ignore. It has the largest Muslim population of any nation, and much of the world's trade passes through its sea lanes. Do not be put off by all the noise coming from Indonesia, that is the sound of democracy in an early stage. Released from

The Second Kulim Conference, 2004, West New Britain, Papua New Guinea, Sept 27th – 29th.

the constraints of military rule, Indonesians are discovering their voice and celebrating their new found freedom.

As for our presence, our offshore palm oil investment in Indonesia started in March 1994 with joint venture development of oil palm in Lahat Sumatra with PT Trimitra Sumberbuana, a member of the Ridjason Group, beginning with 15,461 ha and now expanded into Kalimantan, being the latest at Sampit with total areas now in Indonesia stands at almost 100,000 hectares. We also have a new 40 tons/hr mill in Lahat which covers the crop in the Sumatra Selatan regency, and we are still growing and consolidating.

CHALLENGES ON GOOD GOVERNANCE AND INVESTMENT

There have been many difficult years of multiple crises since the Economic Downturn of 1997 encompassing all fields of life, and many pessimistic evaluations and assessments about Indonesia.

Those pessimistic pronouncements are now largely forgotten. Things have not yet turned around completely, but the pessimism has been overcome. Of course, real suffering and real setbacks are still being felt, but there is no more talk about the possible breakdown of the state.

The most recent and best indication of this has been the series of elections that have taken place, the two of the planned three already implemented peacefully, democratically and honestly. The Indonesian people have shown some political maturity, with 84.06 percent participating in the legislative elections in April, and 78.23 percent in the first round of the presidential election in July.

The Indonesia people have brought democracy several notches higher and they have to be congratulated for that. This is a watershed in Indonesia's political development, and one of which they should be proud. It is also a major step toward overcoming the multiple crises that have been afflicting the country. If the second and final round of the presidential election slated on 20 September brings about better leadership, then the ground has been laid to move on the national development and modernization. They know now that despite the inadequacies and lacunae that affected the reform process, they have the wherewithal to overcome the crises. The people have been sufficiently resilient and patient despite all the setbacks.

Decentralization toward regional autonomy, however messy and full of inadequacies it still is, being implemented with qualified success. At the very least, regional conflicts have been alleviated. More than that, it has brought democracy closer to the common people at the grassroots level, including in the outer islands. While unemployment is still high and poverty continues to afflict 18 percent of the people, it has come down from 24 percent at the height of the crisis. Per capita income is again back to the level it was before the crisis, around US\$1,000 per head.

The fundamentals of the macroeconomy are healthy: Inflation is under control, the fiscal deficit is minimal at about 1.2 percent of the budget, foreign reserves stand at about \$35.9 billion, the current account in the balance of payments is set positive for the near future, growth is close to 5 percent, and the foreign exchange rate is relatively stable. Of course, microeconomic and non-economic factors still present real problems that have been hampering foreign investment: The lack of the rule of law (including judicial corruption), and

security issues still present uncertainties, although regional conflicts, except for Aceh, have basically been overcome. Disturbance in Java have been prevented and some semblance of stability has been achieved.

Economic growth and job creation depends heavily on high levels of investment. One of the major disappointments of Indonesia's economic recovery is that the government's success in re-establishing macro-economic stability has not generated the high levels of investment necessary to increase per capita income, reduce poverty, and raise gross domestic product (GDP) growth levels.

Historically, the government has provided the capital necessary for much of the investment in Indonesia through state owned enterprises and state banks. There was a suspicion, if not distrust, of private capital. However, today, the government does not have the funds, let alone the ability, to be the main driver of economic development. The government must switch gears to fulfill its new role as the facilitator of investment and financial flows rather than the role of its principle provider. Now, more than ever, the government must work in partnership with the private sector to facilitate investment, job creation and economic growth.

In spite of macroeconomic stability, a sampling of recent events informs us that:

- New foreign direct investment (FDI) approvals have dropped yet again for the first six months of 2004. However, it is important to note that the decline was somewhat offset by an increase in approvals for investment project expansions by existing investors.
- Oil and gas exploration activities have significantly declined over the past several years. Indonesia is a net oil importer. Mining exploration is at a standstill. Electrical power capacity and access to telecommunications are less than the public and business require.

As these few items indicate, Indonesia needs new, private investment capital, and must address the issues that are hindering the country from attracting it.

Investors like us are attracted to stable and predictable policy environments, where private sector counsel is sought and included in policy formulation. We are deterred by surprises and inconsistencies. Equally important, we are also attracted to places where current, existing investors are successful and enthusiastic about our business' future.

From our point of view, major concerns in Indonesia are transparency and the quality of regulations, the control of corruption, the rule of law and regulatory certainty as well as overall government effectiveness, especially policy development and coordination across government ministries and between the national government and the provinces and regions. These are government-created sources of business risk and uncertainty and have reduced Indonesia's competitiveness, increased the perception of risk and inhibited the inflow of capital.

There is a misperception that business climate can be improved simply by issuing new laws and regulations. Actually, the major problems investors face are often not with the actual rules themselves but with their implementation throughout the bureaucracy which is badly in need of streamlining, rationalization and discipline. Rules and regulations can always be improved. But these improvements will not bear fruit unless the regulations in which they are embedded are consistently and transparently implemented by the relevant government institutions.

MORE CHALLENGES ON INVESTMENT

Tackling the remaining weaknesses of Indonesia's investment climate is critical for attracting domestic and foreign capital needed to increase growth over the medium term. In the last few years, economic growth has been sustained at 3-4 percent per year, even in the face of large domestic and external shocks. Although this rate of growth would certainly be envied by most industrialized economies, it will need to accelerate for Indonesia to reduce unemployment and poverty in a meaningful way. A significant step-up in investment, both foreign and domestic, will be critical in this regard. However, Indonesia's investment climate is still considered very weak by international standards, and significant progress will be needed to alter this perception. Key areas of concern cited by domestic and foreign investors include the following :

**Decentralization.* Continued care will need to be taken that decentralization does not lead to an unduly complex and unstable regulatory framework that discourages investment.

**Customs and tax administration.* Reportedly, there has been a deterioration in recent years in terms of transparency, predictability, and fairness.

**Labor market policy.* Given the importance to investors of labor costs and related issues, a balance in labor market policy is needed between protecting workers' rights and preserving a flexible labor market.

**Legal and judicial sector reform.* Key steps would include the creation of the Anti-Corruption Committee, passage of pending amendments to the bankruptcy law, and continued efforts to strengthen the commercial court.

To support consumer and investor confidence, the strong ownership of the reform agenda which already exists in Indonesia will need to be consolidated and more forcefully conveyed to the public and the markets. As noted recently by Finance Minister Boediono, strong steps in this regard, notably the government's plan to present a comprehensive economic reform program for 2004 in the near future, will be essential to address the potential "credibility gap" that may emerge following the expiration of the current IMF arrangement.

CHALLENGES ON LEADERSHIP

Over the past decade the forces of economic globalization, political transition and technical innovation have created new opportunities in this part of the Region and especially Indonesia. However their people are still facing high levels of inequality, insecurity and uncertainty, as well as new sources of conflict, environmental decline and lack of opportunity. We on our part need to work together to address these challenges by supporting sustainable human development and ensuring that the benefits of globalization are shared more widely. It is in the interests of business that these benefits continue both for companies and for others in society.

We recognize that our company is a principal driver for increased productivity and development and that commerce and investment, have a crucial role to play in helping to build prosperous societies. We also recognize that sound institutions and clear regulatory and normative frameworks are needed at both the national and international levels. These can

only be created by effective and efficient governments and inter-governmental organizations which are supported by an open and active civil society.

Within this context in Indonesia especially we believe we have an important role to play, in partnership with others in the public and private sectors and civil society, to help spread the benefits of development more widely by the manner in which we pursue our primary business activities. We believe that a commitment on our part to listen to and work with these other groups makes sound business sense and will enable us to better serve the interests of our shareholders and other key stakeholders, especially over the longer term. What does this mean in practice for our business?

First and foremost, Kulim's commitment to being global corporate citizens is about the way we run our own businesses. The greatest contribution we can make to development is to do business in a manner that obeys the law, produces safe and cost effective products and services, creates jobs and wealth, supports training and technology cooperation and reflects international standards and values in areas such as the environment, ethics, labour and human rights right down to the plantation level. In Indonesia we make every effort to enhance the positive multipliers of our activities and to minimize any negative impacts on people and the environment, everywhere we invest and operate, be it in Sumatra or in Kalimantan.

Second, our relationships with key stakeholders are fundamental to our success inside and outside our companies. Being corporate citizens requires us to identify and work with key stakeholders in our main spheres of influence: in the workplace, in the marketplace and along our supply chains, at the community level and in public policy dialogue. Our key stakeholders will vary based on our particular circumstances, but for most of us our employees, customers and shareholders are of fundamental importance, together with host communities and the local 'Pemdas' and governments, 'Bupatis' 'Camat' and a growing variety of civil society organizations.

Third, ultimate leadership for openness and governance rests with us as executives, and officers of the company. Although it is essential that we assign clear responsibilities, resources and leadership roles to our managers for addressing these issues on a day-to-day basis, ultimate responsibility rests with us. While specific definitions, approaches and issues may differ according to industry sector, location of operations, size and type of company ownership, we believe our guided actions provide examples for leadership that is relevant for all the PTs or companies in Indonesia, some of us will use the terminology of corporate citizenship, others of corporate social responsibility, ethics, or sustainable development, but we believe the core principles and actions required are the same. First, provide leadership. Second, define what it means for our company. Third, make it happen. Fourth, be transparent about it.

Fourth, above all this the leadership of the country is important and crucial for making this vital change possible in Indonesia during the next phase of national development and modernization, and for ensuring that it is trusted and supported by the people. The choice in the final round of the Presidential election is not one of who is best, but rather of who will pose the least risk in overcoming the obstacles to national and democratic development.

CHALLENGES ON LAND POLICY

The legal foundation, the Basic Agrarian Law 5/1960 (BAL), needs fundamental reform. Under the BAL, land is controlled by the State to achieve "prosperity of the Indonesian people, Indonesian socialism, and adat philosophy". Ideological underpinnings of the BAL are: state control is essential; the state is a far better allocator of rights than the market; foreign ownership and absentee ownership must be controlled; private ownership leads to problems of land waste and inequitable distribution; parcel sizes must be restricted.

Land tenures and titles are managed by the National Land Agency (BPN), which reports directly to the President. BPN manages all grants, extensions, renewals of titles as well as running the land registration system. BPN has land offices in all provinces and districts with approximately 25,000 poorly paid civil servant employees. Many land offices are well equipped, others need new buildings and facilities. Administration is being revamped to shift staff and functions to local government under the Autonomy Law 22/1999. Over 2000 pieces of legislation, regulations and directives concerning land and registration have been made. These need to be rationalised and simplified. Seventy percent of Indonesian land is held under jurisdiction of the Ministry of Forestry and Estate Crops under the Basic Forestry Law 41/1999. Resource tenures are managed by sectoral agencies. There is little cooperation between these and BPN. There is no private or community land ownership or land rights in forest areas, only forest concessions. Forty to sixty million people live in forest areas. BPN only becomes involved in forest land areas when forest land is converted to a land tenure.

Land rights issued by BPN are tied to use. This undermines spatial/land use planning. If the use ceases, changes, or passes to a company or foreigner, the title is potentially relinquished back to tanah negara, state land. State powers to annul titles are extensive and discretionary. Ownership by companies (the normal means of making capital available for land development) is forbidden in the fundamental ownership tenure (hak milik) and tightly controlled in the lesser tenures (hak guna usaha, hak guna bangunan, hak pakai).

The land registration system is excessively complex, manual and paper heavy. It needs reform, especially to provide a basis for computerisation. Registration is negative and does not deliver any better protection for those who take the trouble to register. It merely provides stronger evidence of their rights. Land titles, even when registered, remain uncertain and land disputes are endemic and account for about 65% of administrative court matters. Possession of land is not adequately protected. Illegal possession (squatting) is criminal and treated as such. Foreign ownership is forbidden but restrictions are avoided by use of nominees and other techniques. The result is uncertainty and inability to attract much needed foreign capital. Indonesia lacks a coherent land administration system capable of delivering information upon which to develop sound land policy. Its efforts are partial, centralised, sectoral and lack transparency. Corruption and collusion are present in the administration, allocation and acquisition of interests in land. There are real challenges to us. The government should play their role to correct these issues.

THE CHALLENGES ON REGIONAL AUTONOMY

The concept of decentralization is to transfer the central government's duties to local governments to allow locals to directly enjoy achievements in development in their own region. When it was first introduced in 1999, decentralization was also aimed at preventing the central government from intervening too much in local affairs so that Jakarta could focus on macro policies. It means that the central government is supervising and observing the whole process of regional autonomy.

Through decentralization, Jakarta can also improve the regions' ability to tackle their own problems, and it also symbolizes the trust of the central government in local governments.

Regional autonomy opens the way for regions to promote investment, to speed up the process of issuing business permits and to establish various infrastructure to support the running of the economy. This will improve regional welfare continuously. In line with decentralization, there are three major points that local administrations have to take into account: strict and simple regulations, the removal of unnecessary costs and enhancing favorable social and security conditions.

With regards to foreign investment, the central government have not authorized regions to issue permits because based on Article 10 of Law No. 24/2000, the mechanism dealing with foreign investment and foreign loans or grants designated to the central government or private sector needs the approval of the House of Representatives.

But investors understand which business permits come from the local authorities or the central government. Foreign investment, of course, involves the central government because regions have no authority to conduct direct business with foreign parties. In this case, it is the authority of the BKPM (Investment Coordinating Board) to facilitate the investment and to negotiate with foreign investors. Regions will only get involved once the deal has been settled, especially on issues that affect their interests, such as the location of the investment or benefits they may earn from the investment.

Regions will be able to change their mentality to realize that the presence of both domestic and foreign companies around them is part of the ongoing efforts to help them improve their welfare. These companies, of course, are expected to allocate funds to improve the regions' standard of living, so as to create a synergic environment that includes social contact and sustainable development.

People have to understand that the meaning of regional autonomy, including its philosophy, vision, concept, background, basic regulations and the strategy to implement it, is to avoid any instant way of thinking, including the thought that they can force their demands and aspirations through mass rallies or demonstrations. And since regional autonomy is the fruit of decentralization and democratization, the process should be seen as an effort to open the way for the selection of legitimate local leaders who are able to promote their ideas to the people. There is also the need for local leaders to maintain the decision-making mechanism, which makes them transparent and accountable to the public.

Regional autonomy has to be seen as an opportunity for local people to develop their administration and create a system that develops its political career so that they can promote

good governance. It means that regional autonomy should be managed well for the sake of keeping up social harmony between the locals and the various elements living around them.

MORE CHALLENGES ON `AUTONOMI DAERAH' AND THE BUPATIS (DISTRICT OFFICER)

Opportunities for investments and doing business in the regions evolved around the regional autonomy with the Bupatis becoming more powerful. The Bupatis have been very active, giving signals indicating their presence in the regions. The message was loud and clear. The paradigms of doing business in Indonesia have been changed by the shifting of autonomous power to local communities.

On business infrastructure and activity is in these regions, not Jakarta and doing business there requires a firm and committed relationship with the Bupatis. This is true in PT Salanok in Sampit Kalimantan, PT Multrada Multi Maju/ Trimitra/Padang Bolak in Lahat Sumatra Selatan. The Bupatis are elected by the local community through the local legislature, are the Heads of the Districts and represent the interests of their own communities. They and their district (Kabupaten) administrations are thus the new power-holders or `Raja Kecil' in the regions.

Finance is dispersed to the control of the districts and governors have increasingly less and less responsibility and authority. The autonomy laws mean that the district legislature elects the Bupati for the region without the need, as before, for approval by the governor.

The essence of the regional autonomy implemented was an expression of the Indonesian wish to narrow the disparity between local and central governments and in so doing, to better the social welfare of local communities. Java, though it has extremely few natural resources, has been the power-base of Indonesia for many decades. The other provinces, many of them rich, some extremely rich, had never received a decent share of the national purse despite the fact that the island of Java makes up only 7 percent of the total land mass of Indonesia.

Revenue-wise on the provinces around 60 percent of GDP emanates from non-oil and gas activities in Java. Outside of Java, Sumatra has the largest income from resources and Riau and East Kalimantan the largest oil and gas activities (60percent of total Indonesian production). Sumatra's economy is run on natural resources with oil and gas, mining, refineries, plantations and natural resources-based manufacturing, and Kalimantan is the number one province in forestry. Jakarta has non of this, having been long ago stand out as a services economy.

District investment wise, the Bupatis especially has the role to play in the current scenario. Bupatis would surely deliver a win-win solution for all. Inward investment into these regencies will ensure growth to the benefit of the local stakeholders, and foreign investors, accustomed to the new ways of doing business, will be better placed to make sound strategic decisions for future investment. Last, but by no means least, the economy as a whole will benefit from any region-driven investment initiatives.

CHALLENGES ON LABOUR

The problems on labour are multi-dimensional : the sheer scale of the jobless figures, the friction between workers and employers, the very limited availability of government funds, the stalled privatization program and doubts about the will and commitment of the government all make the burden a heavy one especially to investors.

Jobs are desperately needed. Though the Central Bureau of Statistics (BPS) survey estimated the number of jobless Indonesians at only 8.4 million, it appears that the figures are totally out of touch.

The number of unemployed was between 40 million and 45 million because the “disguised unemployed” or those working less than 35 hours per week were not included in the BPS survey results. This squares with the Indonesian Chamber of Commerce (KADIN) estimate that 50 million adults nationwide, half of the current labor force, are out of work or not fully employed.

In an era of drastic change in Indonesia’s labor situation, fledgling labor unions experiment with new freedoms and the government struggles to draft new legislation that protects the rights of both workers and businesses alike, continuing controversy over the government’s failure to deal with labor legislation to the satisfaction of all parties has played a part in the negative investment sentiment.

There are 62 labour unions registered at the national level but they have been unable to succeed in satisfying the demands or needs of their members. The labour laws currently in force leave workers out on a limb, as there is no time frame specified for settlement of an industrial dispute, and neither are any penalties proscribed for employers who ignore a tribunal’s verdict in favor of the workers.

The absence of clear guidelines for relations between employers and workers, added to increasingly strident labour demands, is a recipe for disaster and certain to spook further would-be investors lurking outside a country that is seen as doing precious little to promote its advantages or put its house in order.

Wages are also a highly contentious issue. Before regional autonomy was implemented last year there had been standardized regional minimum wages, or UMR (Upah Minimum Regional), which were determined unilaterally by the Ministry of Manpower in Jakarta. Central government no longer plays a part. Local bureaucracies determine regional minimum wages through tripartite wage committees and the deals need to be approved only by the provincial governors. An example is given for Sumatra Selatan, where the increase in wages for the last 10 years was horrendous, from Rp 87,500 per month in 1995 to Rp508,500 this current year.

The problem with this is that many employers do not pay the agreed rates, either because they are genuinely unable to increase the cost of the labor component of their business, because they know the workers rights are so weak or because of the ease with which they can hire thugs to bully and intimidate workers into submission.

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The labour unrest, foreign-investor disputes with local shareholders because of the almost complete absence of legal certainty, and now the widespread fears were all crucial factors in causing a dearth of foreign investors.

The socio-economic plight of the workers and the poor of Indonesia needs to become a matter of daily priority and concern for us. This is all the more crucial given that increased poverty and despair may spawn a breeding ground for more militant demonstration that, until now has originated only from a few small pockets across the country.

A substantial increase in development spending by the government most of it on infrastructure, will be needed to stem the rising jobless figures, accompanied by new and creative ways of stimulating the badly needed growth that will follow on from meaningful increases in job opportunities.

During most of the New Order era, agriculture and especially plantation was the backbone of healthy employment figures, to absorb those thrown out of work in the factories and thus mask the specter of massive unemployment.

Sustainable economic growth can only be achieved through investment. The past few years saw Indonesia reach 3-4 percent growth on the back of strong domestic consumption amid the drop in foreign and domestic investment and falling exports. For the foreseeable future Indonesia will only be able to count on foreign investors. The country will be dependent on such external resources, either investments or loans, for a long time to come.

CHALLENGES ON LAND TAKE-OVER

KALIMANTAN EXAMPLE

They say, oil palm plantations deprive indigenous peoples, like the Dayaks of Central Kalimantan, of their traditional, sustainable livelihoods and accelerate cultural erosion due to the loss of access to their land and forest resources. These people have little choice but to become plantation workers and/or oil palm growers through smallholder or co-operative schemes attached to the plantation company. The 2 hectares of land allocated to them is much less than their original holdings and must be used to grow oil palm.

The lack of alternative sources of income brings increased poverty. Farmer's monthly incomes from nucleus estate & smallholder (NES) oil palm schemes were not sufficient to support their needs. Average smallholder incomes were only Rp150,000 to Rp 200,000 per month. Newer plantations, are required to set up *KKPA* co-operative schemes (*Koperasi Kredit Primer Anggota* = Primary Co-operative Credit for Members). These are proving to be just as problematic as the NES system; there is no evidence that they have brought greater financial security or other benefits for local people.

The whole process of converting communities from diverse, self-supporting lifestyles to total dependence on the cultivation of an introduced mono-culture and employment by a company is fraught with difficulty and should stand as a challenge to planters.

THE KKPA SYSTEM

Most oil palm plantations are encouraged to have the KKPA scheme to eliminate land problems with the locals or getting rid of their ‘cemburu sosial’. This co-operative share system was introduced nationally by the Indonesian government to replace the much-criticised nucleus estate & smallholder plantation system (NES; PIR in Indonesian). From 1995 to 1998, companies no longer had to set up their own smallholder schemes in addition to their main estates, but were required to establish a ‘partnership’ with local people within the concession area. This was done through co-operative schemes run by officially approved Village Co-operatives (*KUD*). In practice the ‘partnership’ system operates in much the same way as the nucleus estate & smallholder system it replaced, with many of the same problems.

Technically, a *KKPA* co-operative is set up by local people for local people. In practice, these are usually established by local government authorities in conjunction with the company. Basically, *KKPA* provide access to cheap credit and land for the companies. Prior to the Asian economic crash, it cost the equivalent of US\$80 million to establish a 10,000ha oil palm plantation in Indonesia. On average companies borrowed over three-quarters of these total costs. The government encouraged banks to promote its Village Co-operative schemes (*KUD*) by providing cheap credit. So companies were also keen to participate. This is particularly the case since 1998, when Indonesian interest rates rose sharply and bank loans have been hard to come by.

Farmers who want to take part in the *KKPA* scheme must have a letter of support from the village head and hand over a minimum of 2ha of their land. This land is measured by the local Land Agency (*BPN*). The stakeholder then receives a certificate for the 2ha which will be used for oil palms. The certificate is usually held by the bank as a guarantee against the loans needed to support the farmers while the oil palms mature. There should be a very close relationship between the company and the *KUD*. The company and local government select one local civil servant as the co-operative manager. Each co-operative member has to pay Rp5,000/month to cover the administrative costs of the scheme.

Details of *KKPA* schemes and the ‘partnership’ between companies and communities vary from area to area and company to company. According to Plantation Use Permit Regulation 107/Kpts-II/1999 plantation concessionaires can choose between five partnership schemes. Accordingly many companies now use the ‘Build, Operate and Transfer’ model. The plantation company manages the whole plantation area (using mainly transmigrant labour) from land preparation to tree planting until the oil palms start producing. For eleven years from the first crop, 30% of each farmer’s monthly income from oil palm production is deducted to cover the costs of purchasing seedlings, fertilisers, pesticides and other plantation running costs. After 11 years, the plantation is handed over to the co-operative members. Farmers sell their oil palm fruits to the *KUD* which sells them to the company. It is possible that some of local people’s confusion about the relationship between the company and the co-operative stems from changes in government policy and hence changes in the scheme over the years.

The following point must also be taken into consideration. In Central Kalimantan (unlike Sumatra), oil palms are commercially productive for a maximum of 15 years. Oil palms are not productive until 6 years after planting. They are most productive from 8-13 years after planting and commercially unproductive after 22 years. This means that a farmer may only have 4 years of maximum productivity left after the 11 year debt repayment period. Local

forest farmers do not realise that the production period is limited and that some of their land will be unproductive for up to ten years while the oil palms are replaced. Old oil palms must be felled, then cleared using heavy machinery. The compacted land must then be turned over, fertilised and left fallow for a couple of years before replanting

CONCERNS RAISED BY THE WARGAS

- * Loss of land, livelihoods and natural resources*
- * Destruction of graves*
- * Pollution and health*
- * Inadequate and unfair compensation and irregularities in payments*
- * Confusion over the workings of the plantation co-operative scheme (KKPA)*

These are grievances commonly cited by the local communities during our meetings with them. Through feedback from neighboring companies operating in the same vicinity, the same have been repeatedly mentioned. This has been confirmed by the local NGOs. Nevertheless, Indonesia being Indonesia, not all can be taken as true and holds water. Some may just be there for the sake of monetary gain or manipulation.

CONCLUSION

Finally to sum up this paper, I would say that fostering a healthy investment climate will support sustained growth and financial stability. Indonesia still has an edge over this region as a destination for foreign direct investment. But maintaining this edge and boosting investors presence and confidence includes deeper capital markets, transparent regulatory frameworks that meet international standards, education and training that foster the versatility of the work force and well-enforced legal systems that guarantee property rights. Here lies the key responsibility of the Indonesian government, by providing a solid and predictable framework within which investment activities can flourish.

Ladies and Gentlemen,

In identifying these challenges facing Indonesia today, I hasten to emphasise that there are no 'one-size-fits all' solutions. While the challenges facing countries in the region may be similar, and indeed interconnected, the diversity of economic and cultural systems does not allow a uniform off-the-shelf, approach. Indonesia represents a vast and growing market to be tapped, and a vibrant investment destination for our company. But taking full advantage of the opportunities – or meeting the challenges of more intense competition – means that we must 'move on' in our skills, productivity and flexibility.

We have seen arsons, we have encountered assaults, kidnaps and we have seen actions on rowdy demonstrations to the fullest in Indonesia. We have learnt from these lessons that made us today stronger and more resilient.

Thank You.

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