







CHAPTER 4

Empowering the Poor

AT A GLANCE:

Tanoto Foundation's empowerment programs focus on enabling families to have sustainable livelihoods to break out of poverty. The programs aim to help families to access productive assets, start-up capital, technical skills required in improving their livelihoods and links to markets. As we promote creating shared values, where solutions to community needs are aligned with solutions for business needs, we work with corporate partners to promote sustainable business practices linked with communities.

According to the National Statistics Bureau, 13% of the population in Indonesia in 2010, or 31 million people, lived below the poverty line. As in many countries, poverty in Indonesia is more severe in rural than in urban areas. In 2010, 20 million people in rural areas were below the national poverty line, compared to 11 million in urban areas.

In the three provinces of Sumatera where Tanoto Foundation operates the poverty rates are quite high. In 2010, there were around 689,000 poor people (11.29%) in rural areas of North Sumatera, 291,000 people (10.15%) in Riau and 130,000 people (6.67%) in Jambi.

Lack of access to employment or sustainable livelihood and sub-standard yields of productive activities are common characteristics of poverty in rural areas.

To address the issue of access to employment or sustainable livelihood, we develop a program that creates jobs by linking local small and medium-sized companies and entrepreneurs with the value chain of our corporate partners.

To address the issue of sub-standard yield of productive activities, we support efforts to improve yield by facilitating formation of partnership between local small holders and our corporate partners.





Tanoto Foundation's empowerment programs are aligned with Sustainable Development Goals related to elimination of poverty, promotion of sustainable agriculture, and job creation.

Two key empowerment programs are:

1. Small- and Medium-sized Enterprises (SME) Development
2. Oil palm plantation Smallholders Development





SME Development

Based on the precept that community can create value together with business, Tanoto Foundation works with the Community Development team of APRIL Group to build clusters of Small- and Medium-Sized Enterprises (SMEs) in Riau and facilitate establishment of business linkage with APRIL.

The initiatives include:

- Improving local entrepreneurs' skill sets to meet market requirements, including basic business management, financial and accounting skills, and vocational skills.
- Opening access to business opportunities within APRIL's value chain or related support functions.
- Linking participating SMEs chain with commercial banks to get funding.

Achievements

Achievements of the SME Development program as of December 31, 2015:

- 1.** 161 local SMEs in Riau awarded with 341 business contracts from APRIL. They provide goods and services at various stages of pulp and paper production, including manpower supply (32%), hauling of raw materials (19%), and transportation services for personnel (16%).
- 2.** Provided business management training to 215 small and medium entrepreneurs supplying goods and services to APRIL.
- 3.** Provided vocational training to 144 rural community members.



- 32% : Manpower Supply
- 19% : Hauling
- 16% : Transportation
- 11% : Plantation Maintenance
- 9% : Construction & Infrastructures
- 3% : Cleaning Service
- 3% : Road Safety
- 7% : Others



Challenges

1. Most SMEs are highly dependent on business orders from Tanoto Foundation's corporate partner. We need to improve the capacity of the SMEs to serve other customers as well.
2. Many SMEs are rigid and do not adapt well to the corporate customer's changing requirements. This calls for more intensive coaching on business agility in meeting demands.

Impact

1. IDR 102 billion of loans from commercial banks have been channeled to SMEs participating in SME Development program.
2. Participating SMEs have created more than 3,200 jobs in the region.



Pak Haji's Business Lasts for Generations

After retiring from teaching at the local primary school, Haji Zamhur or best known as Pak Haji joined the SME Development Program in 2001. At that time, as part of its community development program, APRIL decided to outsource the pallet-making process and invited local entrepreneurs to participate in the program. Pak Haji, who happened to own a small woodworking workshop, responded to the opportunity and successfully passed the selection process.

Pak Haji was trained to produce pallets that met APRIL's stringent specifications. APRIL also provided Pak Haji with start up production tools and equipment. He was also trained on business and cash flow management. To ensure that Pak Haji is able to maintain product quality and on time delivery, APRIL and Tanoto Foundation continue to provide coaching and mentoring.

Today, after 14 years in the business, Pak Haji continues to produce pallets for APRIL. He now runs two workshops at Pangkalan Kerinci and Pekanbaru, both of which will be passed on to his son. Every month, their business generates approximately IDR 20-28 million in revenue, which is a significant improvement from what he made from his previous occupation.

"It is important to maintain your good name. Do not owe money to anyone. With proper training, I feel a sense of empowerment over my business", advises Pak Haji to those who are planning to participate in the Local SME Development Program.

From Illegal Logging to Responsible Business

Prior joining the SME Development Program, Pak Haji Basril was an illegal logger. When his area of operation along the Pelalawan River in Riau became part of APRIL's concessions and therefore protected from any form of encroachment and unauthorized logging, Pak Basril's livelihood was jeopardized.

Fortunately, one of APRIL's managers encouraged him to talk to APRIL to seek an opportunity on how he could partner with the company given his knowledge of the area. Later, he was directed to join the Local SME Development Program that was part of the company's initiative to empower local communities. Pak Basril decided to become a partner of APRIL in providing harvesting service, canal bridging and canal maintenance. He founded CV. Bina Terusan and joined the program in 2002 and received a loan from APRIL to procure one excavator for canal maintenance.

Six years later, capitalizing on continued business partnership with APRIL, CV Bina Terusan was awarded a 3,8 billion rupiah loan from Bank BTN to expand its

excavator fleet. Currently, CV Bina Terusan is managing ten excavators and employing more than 75 employees to provide maintenance services for APRIL in Pelalawan.

"APRIL has provided opportunities for small businesses to grow in a constructive partnership. In 2002, my company only operated one excavator for canal maintenance; Now, there are ten excavators doing the job" said Pak Basril.

To ensure that Pak Basril is able to cope with the business expansion, APRIL and Tanoto Foundation continue to provide coaching and mentoring.

"I believe that the program has transformed me in a better way. It never crossed my mind that I, Basril, with years of experience in unauthorized logging, would become a quite successful businessman in Pangkalan Kerinci. I hope that the partnership with APRIL will sustain and I could share the fortune with the local people that work in my company" he added.



Oil Palm Plantation Smallholders Development

Independent oil palm smallholders, typically owning 2-3 hectares of land, account for 42% of the total acreage of Indonesia's oil palm plantation industry. These farmers are self-financed, self-managed and self-equipped.

As producers of fresh fruit bunches (FFB), independent smallholders are not attached to any palm oil mill in particular and usually sell their produce through middlemen. Yields are typically low because they may not be applying the most appropriate agricultural practices.

In early 2012, Tanoto Foundation collaborated with Asian Agri to develop a partnership program with independent palm oil farmers in the vicinity of Asian Agri's operations.

The program aims to increase the farmers' income and livelihood, by means of:

- Facilitating the formation of cooperatives or farmer groups
- Training in good agricultural practices and in other skills
- Providing technical assistance to farmers to secure certifications on sustainable palm oil, such as Roundtable Sustainable Palm Oil (RSPO)

Achievements

Achievements of the Smallholders Development Program as of December, 31 2015:

1. Trained 5,661 farmers in good agricultural practices
2. Established 122 farmer groups
3. Established 12 farmer cooperatives that support the members' plantation activities



Better Yield for Ukui Farmers

In 2012, a group of independent farmers from Ukui, Riau province, formed a farmer group called Asosiasi Amanah and participated in the Partnership Program offered by Asian Agri and Tanoto Foundation. Collectively, the group manages 1,048 hectares of productive palm oil plantations belonging to more than 501 families in 3 villages. Most of their palm oil was planted in 2001, by the time they joined the program, their plantation was reaching its most productive age.

Upon joining the program in 2012, the group was immediately given the RSPO preparation training. As early as 8 months into the program, some plots of land were ready for RSPO certification. Pak Sunarno, the Group's Liaison Officer to Asian Agri, also reported steady yield increases. In 2012, the group had produced 17.7 ton/ha and by 2015, production level was at 22.7 ton/ha. He is optimistic that the group will hit the target of 24 ton/ha in 2016.

Challenge

RSPO certification process for independent growers is challenging due to land ownership issues.

Impact

1. 5,661 farmers are applying good agricultural practices in their 18,601 hectares of oil palm plantation.
2. 763 hectares of oil palm plantation managed by 349 smallholders have received RSPO certification.
3. After three years of program implementation, average farmers' income improved from around IDR 650,000 to IDR 1,500,000/ hectare /month.

Income Improvement

(per ha./ month)

