

# Cost of Living Credit as a Stimulant Development of Society Palm Oil Plantation for Low Capital Farmer (Case Study in PT. Astra Agro Lestari Tbk., Borneo 1 Area)

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**Abstract:** *The characteristic of the farmers' life is a different pattern of revenue, income and expenditure. The production received in every season, while expenditure should be every day, or even in an urgent time. The article aims to examine the practice of credit distribution of IGA PT. AAL B1, examine the advantages and disadvantages of credit distribution of IGA PT. AAL B1, and formulate an intensity of stimulant of palm oil farm management for low capital farmers. The article used qualitative methods which supported by quantitative data through a case study approach in PT. AAL B1. The conclusion of the article shows that (1) credit distribute to the farmers of IGA without interest, cash and non-cash, in accordance with the needs of the plant, returned after the plant produces, price of fresh fruit bunches (TBS) set by the local government, credit distribution is stop if the plant produce the harvest; (2) advantages for the farmer are the farmer as an owner operator, credit ceiling is low, without interest, appropriate and well objective, applied directly; advantages for the company are to increase the processing capacity of the factory, could be distribute through the group, saved of distribution cost, effective supervision, reputation of the company is good; disadvantages for the farmers are the low cultivating intensity, period of acceptance, farmers are not prepared in the provision of means production; disadvantages for the company are the less serious farmer manage farm, low productivity, poor credit repayment ability, members of farm group which are not harmonious; (3) credit which can stimulate the intensity of palm oil farm management not only on land clearing, seeds, fertilizers, and pesticides, but add by Cost of Living (COL) credit. COL credit should be non-cash credit to meet the basic needs of the farmers for immature plants.*

**Keywords:** COL, palm oil, low capital

## 1. Introduction

### 1.1. Background of the Study

Working in the agricultural sector in Indonesia is still an alternative job, it means that someone will work in the agricultural sector if they do not get another job that can be the main livelihood. Work in the agricultural sector is less attractive for the middle class community because farming has a high risk and are not comparable with the income. Generally, the community which work in the agricultural sector comes from the low class of community.

According Mubyarto (1994), for the Indonesian, agriculture is not just an economic activities to generate the income of farmers only. But more than that, agriculture is a way of life for the majority of the farmers in Indonesia. Agriculture is not only economic activity, but has become a culture of life that is full of the social culture values of local community.

Characteristic of the farmers' life is the different pattern of receipt, income and expenditure. The harvest only accepted in every season, while expenditure should be every day, or sometimes in an urgent time (Amao, Ayantoye, and Fadahunsi, 2013; Riana, 2014). That situation adds the common problems for the most farmers in Indonesia, it is the issue of the ownership of capital are small and limited. According to Widodo (1980); Yasmeen, Abbasian and Hussain (2011), the agricultural credit is expected to be the solution of the difficulties of farmers who have low capital.

The main obstacle in the development of the agricultural sector is the average farmer in Indonesia is the population

that is classified as a low economy, thus the rising prices of agricultural production factors such as seeds, fertilizers, pesticides affects the farm activity. Remember the importance of capital for the development of farming, government and private sector often issued the policies to assist farming activities. Credit production is a facilitating factor in agricultural development (Mosher, 1978; Banoewidjojo, 1983). Credit distribution in the farming intended that the farmers are able to expand their farming. According to Mears (1961); Omorogiwa, Zivkovic, and Ademoh (2014), the credit is really needed by the farmer for a number of purposes, they are the cost of production, the cost of daily living before the harvest can be sold, and for the social activities that have become the habit of the farmers in community environment.

Based on Law No. 10 of 1998, the credit is the provision of the bill and the money that can be equated by agreement between the lender and the borrower in the amount, interest and certain repayment time. Credit is all kinds of loans paid by the borrower with the amount of interest (Suyanto, 2001; Hasibuan, 2008).

In line with the mandate of Law Number 18 of 2004 on Plantation, and the Minister of Agriculture Regulation No. 26 Year 2007, replaced by the Minister of Agriculture Regulation No. 98 Year 2013 on Plantation Business Permit, then PT. Astra Agro Lestari Tbk., Area 1 Borneo (PT. AAL B1) implemented Income Generating Activity (IGA). IGA activity is a partnership between PT. AAL B1 with surrounding community through the development of palm oil plantation of the community. The farmers which are the members of IGA obtain free interest credit in the form of

cash for land clearing, and non-cash for seeds, fertilizers, and pesticides to produce the harvest.

Technically, the harvesting of palm oil takes 4-5 years after planting (Pahan, 2008; Directorate General of Plantation, 2013). Quite the length of the span of the harvest after planting resulted make the farmers do not obtain the income from farming in long enough time, whereas the needs of farmers' households must be met every time. Cash to meet the needs of farmer households can be obtained if the farmer have another job, or be hired labor in other oil palm plantations.

Attention of the farmers in palm oil farms is disturbing because they must work to meet the needs of their family, whereas the palm oil farm requires a way of cultivation and intensive management since planting (Pahan, 2008). The lack of farmers' attention on farm make palm oil make the productivity fresh fruit bunches (TBS) is low, even some farmers unable to repay their credit installments every month.

Giving credit for the farmers to meet the basic needs of the household before the palm oil produce the harvest is an alternative to improve the intensivity of palm oil farm. These conditions are expected to improve the productivity of TBS, improve the farmers' ability to pay off credit, and increase the income of farmers and their family.

**1.2. Problem of the Study**

The problems of the article:

1. How is the practice of lending at the IGA PT. AAL B1 program?
2. How are the advantages and disadvantages credit distribution of IGA PT. AAL B1 program?
3. How is the formulation of credit scheme as a stimulant of intensivity management of palm oil farm for low capital farmers?

**1.3. Objective of the Study**

The objectives of the article:

1. Assess the practice of lending at the IGA PT. AAL B1 program.
2. Assess the advantages and disadvantages of credit distribution in IGA PT. AAL B1 program.
3. Formulate the credit scheme as a stimulant of intensivity management of palm oil farm for low capital farmers.

**1.4. Benefit of the Study**

The study results are expected as consideration for PT. AAL B1 in policy credit distribution palm oil farmers to improve the intensivity farm management, increase the TBS productivity, which further increase the ability of credit repayment and the income of palm oil farmers.

**2. The Method**

**2.1 Type of Research**

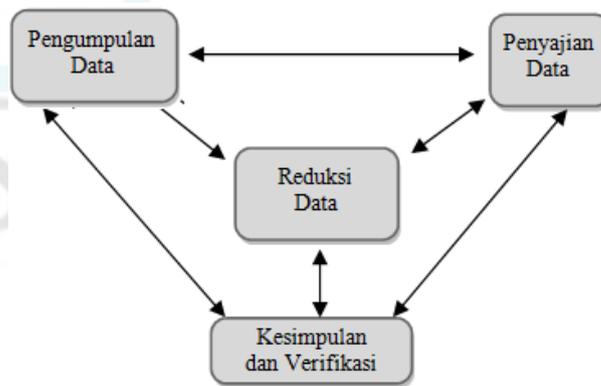
This article is a qualitative study which supported by quantitative data through a case study approach. The study was conducted in Central Kalimantan with the case of PT. AAL B1 implementing IGA program. The collection and processing of the data in 2014, and the preparation of the study began in 2015.

**2.2 Type and Source of Data**

Primary data sourced from the informant study consists of the participants of IGA, IGA management company, government agency and other stakeholders. The informants consists of key and continued informant. Secondary data is supporting data in the discussion sourced from government agency and associated NGOs. Primary data collection used interview, observation and FGD, while secondary data collected by documentation.

**2.3 Data Analysis**

The objectives of the article was analyzed in interactive model by Miles and Huberman (1992), which data analysis consists of data reduction, data presentation, and conclusion interactively, interconnected during and after data collection, as shown in Figure 1. Analysis and domain on the objective of the study in Table 1.



**Figure 1:** The Component of Data Analysis of Interactive Model (Miles and Huberman, 1992)

**Table 1:** Data Analysis and The domain on each Objective of the Article

No.	Objective of the Study	Analysis Tool	Domain
1.	The practice of credit distribution of IGA PT. AAL B1	Descriptive structure of event	Stages of palm oil farm
2.	The advantages and disadvantages of credit distribution of IGA PT. AAL B1	Componential descriptive	The Farmer and PT. AAL B1
3.	The formulation of credit scheme of intensivity stimulant of palm oil farm for low capital farmers	Descriptive structure of event	Stages of palm oil farm

According to Ahmadi (2014), Event-Structure Analysis (ESA) is an analysis technique of qualitative data by way of organizing the sequence of events in a certain ways thus it is

easy to find a causal relationship. Componential analysis, is a data analysis method which is systematic about the attributes (components of meaning) related cultural categories (Spradley, 1980).

### 3. The Result

#### 3.1 The Practices of Credit Distribution of IGA PT. AAL B1

Credit distributed to palm oil farm of community of IGA PT. AAL B1 program sourced from the budget of the company for the development of community around the PT. AAL B1 area. The the budget of the company was prepared in the framework of the implementation of "Catur Dharma Astra", particularly related to the business principle of mutual "respect and cooperation".

Credit distribution to IGA farmers established without interest because IGA is the part of CSR program of PT. AAL B1. The beginning of IGA program implemented in 2003, the credit ceiling is IDR 7,100,000/hectare, whereas in the last few years increase to IDR 14.000.000/ hectare. The increasing becauseof the increasing of palm oil seeds, fertilizers and pesticides, and the salary of labor in land clearing.

Credit of seeds, fertilizers, and pesticides distributed in the form of goods, while the salary of land clearing gave in cash. Seeds distributed once at the time of plant seedlings add by spare seed, while fertilizers and pesticides distributed to the farmers of IGA until the palm oil plantations have produced TBS.

The value of TBS IGA of palm oil plantations of each farmer who cultivated by PT. AAL B1 factory to CPO and PKO, 30% used for credit installment loans 70% as the farmer acceptance. The credit installment was of 30% of the price of TBS to PT. AAL B1 account, while 70% as the farmers acceptance transferred to accounts of the farmers, which opened in the units of the government bank.

The price paid by the company of TBS of the farmers of IGA which set by the local governments at the district level. Periodically, TBS pricing determined in accordance with the development of the palm oil price in international market. Broadly, the practice of credit distributin of IGA PT. AAL B1 program, like in Figure 2.

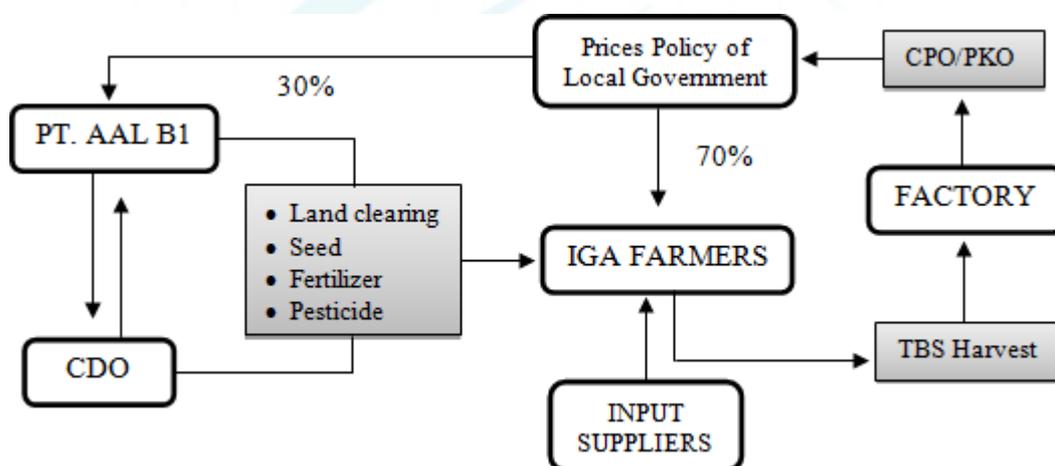


Figure 2: The Practices of Credit Distribution of IGA PT. AAL B1

#### 3.2. The Advantages and Disadvantages of Credit Distribution of IGA PT. AAL B1

##### 3.2.1. Advantages

Some of the advantages in credit distribution of IGA PT. AAL B1 of the farmers and the company are:

##### 1. The party of IGA farmers:

- The farmers are "owner operator", thus the farmers get additional benefits as the labors in their own garden.
- The credit is the part of the CSR program of PT. AAL B1, thus the limit of credit is only IDR 7,100,000 - IDR 14,000,000/hectare were very low, whereas the investment for the construction of palm oil plantations on average IDR 30,000,000 - IDR 35,000,000/ hectare.
- The credit without interest, thus the farmers of IGA is only obligated to refund the capital credit, without assume the interest rate.
- The credit distribution in accordance with the needs of plants in the field, thus the credit really appropriate and well objective.

e) The credit is applied by the farmers directly, thus the farmers know the number and the type of means production that is used.

f) The farmers control of palm oil cultivation techniques to the post-harvest, thus the farmers have the higher independence.

##### 2. The party of PT. AAL B1:

- TBS produced by the farmers of IGA able to increase the processing capacity of the factory and the company's income.
- The distribution and deployment of credit for the farmers are sufficient through the farmer groups.
- The monitoring of use of credit is more effective because one area farmer groups and it is in the villages around the company.
- Monitoring of TBS sale of IGA farmers can be done by the management of farmer groups.
- The company's reputation on surrounding communities were good.

##### 3.2.2. Disadvantages

Some disadvantages of credit distribution of IGA PT. AAL B1 program of the farmers and the company as follows:

1. The farmer of IGA:
  - a) For low capital farmers, the attention to the palm oil farm of IGA was not optimal because it must work to meet the needs of their family every day.
  - b) The period of cultivation until the plants produce the harvest and obtain the income takes a long time.
  - c) After the plants produce the harvest, the farmers have difficulties in the procurement of fertilizers and pesticides which needed.
2. The Party of PT. AAL B1:
  - a) There are the farmers who are less serious when managing their farm.
  - b) The productivity of TBS palm oil farm is 0,8 higher than the productivity of TBS company, thus the influence on the ability of credit repayment.
  - c) There is a farmer groups whose the members are less harmonious, thus impacting the return of debts.

**3.3. Credit Scheme as a Stimulant Increase Intensity Palm Oil Plantation**

Based on some of the weakness in lending IGA PT. AAL B1, particularly related to the lack of farmers' attention on management of palm oil farm. There are the farmers who are less serious when managing their farm which affect to low productivity, and poor credit repayment ability, which affect the reduction in farmers' income. The main reason of farmers are less serious to manage their farm because the farmers have to work in other sectors or to become hired labors in palm oil plantations owned by others to meet the needs of their family (Daud, et al., 2016).

On the basic of the main problems that lead to low farm productivity, less of credit repayment ability, and the low income of the farmers, need to made the formulation of credit scheme for the farmers to manage their farm with consideration of the findings of Surayya (2010) concerning the low capital farmers as follows:

1. Generally, the low capital comes from the lower class people who work do not settle and have low family income.
2. The income just to meet the needs of the family, can not divide for savings and investment.
3. The basic need of farmers' family must be meet every day, and sometimes there is a sudden need.

Technically, agronomic palm oil farm takes a long time, which is about 4-5 years until harvest produce fresh fruit bunches (TBS), thus in that period the farmer does not obtain the income from palm oil farm. Although the farmers get sufficient credit of clearing land, seeds, fertilizers and pesticides, but if farmers do not have sufficient capital to

meet the needs of their family life, the farmers have to work the other palm oil farm. Cost of Living (COL) credit is a solution that can be stimulating the farmers manage palm oil farm intensively, in order to increase the productivity of TBS, improve the ability of credit repayment, and increase farmers' income.

This COL credit is to meet the basic needs of the farmer and their family for immature plants. Distributed in the form of goods, and the number in accordance with the area of farmland and farmers' burden. COL credit distribution are the option for farmers, and not an obligation for the farmers who do not need it.

Some expert opinion that supports the functions and role of COL credit in the development of agricultural as in Table 2.

**Table 2:** The Opinions of Experts on the Function and Role of Credit COL In Agricultural

No.	Experts	Opinion Statement
1.	Hazell (2003); Tegt-meier and Duffy (2004)	External costs of agricultural production is household food needs of farmers during the production process and can be a part of the outside investment.
2.	Khor (2008); Matthew and Agada (2013)	Credit distribution of farmers' need as a backup before the plant produces the harvest, it can help the success of farming in all investment returns that used in agricultural production process, and the successful key in development of small-scale farm in rural areas.
3.	Ogbanje, et. al. (2015); Blank, et. al. (2009)	Income from inside and outside of the farm can be an investment for the next period production if farmers have a strong capital with supporting credit of farm thus the farm activities can take place in accordance with recommended technical guidelines.
4.	Wiggins, et. al. (2011)	Low-income Farmers affected by small land, education and low skills and low capital. Commercialization of small-scale farming should be supported by an increase in capital and skills of farmers.
5.	Obilor (2013)	Agricultural credit distribution of agricultural by the commercial banks to increase farmers' income without disturbing the ability of credit repayment.

Based on the basic factor of low productivity of TBS, low credit repayment ability, and low income of palm oil farmers of IGA PT. AAL B1, and the support of expert opinions about the function and role of COL credit, thus credit distribution scheme to stimulate intensity palm oil farm management like in Figure 3.

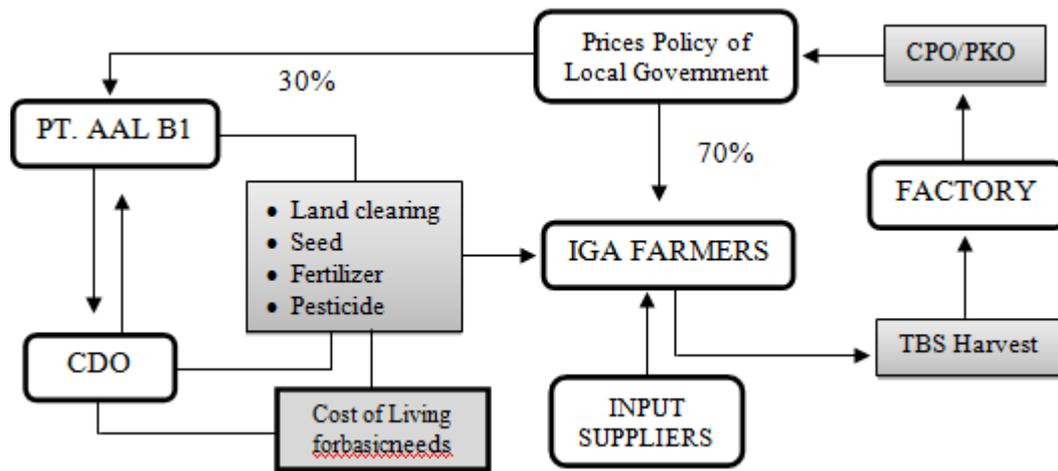


Figure 3: New Scheme of Credit Distribution of Palm Oil Farm of IGA PT. AAL B1

## Conclusion and Suggestion

### 4.1 Conclusion

The conclusion of the article:

- 1) Credit distributed by PT. AAL B1 IGA to the farmers without interest, consists of cash for land clearing and non-cash in the form of seeds, fertilizers, and pesticides. Credit distribution in accordance with the needs of plants. The credit repayment to PT. AAL B1 after the plant produces the harvest was 30% of the TBS acceptance in every month, and 70% the acceptance of the farmers. The purchase price of TBS by companies set up in accordance with the decision of the local government. Credit distribution stop if the plants produce the harvest, and the procurement of farm production factor is the responsibility of the farmers and their groups.
- 2) The advantages and weaknesses in credit distribution of IGA PT. AAL B1:
  - a) The advantages for the farmers are the farmers as an owner operator, the low credit ceiling, without interest, appropriate and well objective, applied by the farmers directly, the farmers that mastered in cultivation techniques. The advantages for companies are increasing the processing capacity of the factory, can be distributed through the group, the cost of distribution is more efficient, effective supervision, good reputation of company.
  - b) The disadvantages for the farmers are the low cultivating intensity, the period obtain old acceptance, the farmers were not ready in the provision of means production after the plant produce the harvest. The disadvantages for the company were the less serious farmers to manage the farm, low productivity, poor credit repayment ability, there was a farmer group whose the members were not harmonious.
- 3) Credit distribution to stimulate the intensity palm oil farm management in addition to the cost of land clearing, seeds, fertilizers, and pesticides is through additional credit of COL. COL credit should be non-cash to meet the basic needs of the farmers and their family during immature plants.

### 4.2. Suggestion

COL application of credit distribution for low capital farmers is needed because the age of the plant can produce the harvest takes a long time. COL credit distribution should be only to the farmers who really need it, because the COL credit will increase the amount of main credit which must be refunded by the farmer. The amount of COL credit distribute in accordance with adjusted to restore the farmers' ability prediction for repayment and the number of members of farmers' family.

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