

# Interest-Free Unsecured Micro Credit Innovation for People's Oil Palm Plantation in Bangka Regency



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## ABSTRACT

The economic structure of Bangka Regency is dominated by the agricultural sector. The Central Bureau of Statistics reported that in 2019, the agricultural sector contributed 19.54 percent to the GRDP, which later increased to 20.44% in 2021. The dominance of the agricultural sector in this regency is mainly attributed to its area predominantly consisting of rural areas. Based on the pattern, agriculture and rural areas are closely related with poverty. In fact, the highest contributors of Bangka Regency's poverty rate are 6 rural sub-districts that make agriculture, specifically oil palm, as the main pillar of the community and regional economy. The problem lies in the fact that most of these oil palm farmers are bound in a one-way deal with a partner company. The contract farming system that utilizes a principal agent means that the farmers do not have control over their factors of production. Consequently, farmers have weak bargaining power over their lands, agricultural financing, selling price, labor, and even in terms of risk management. This situation has led to "institutionalized" poverty in Bangka Regency, making it a particularly challenging issue to solve. However, if the issue remains unaddressed, the farmers' welfare will only become worse, the poverty rate will increase even more, and the regional economy will be more contractual, thus widening the gap of income inequality. With this rationale, the Government of Bangka Regency has implemented a policy to address the issue in an integrative manner. The Interest-Free Unsecured Micro Loan innovation is an effective policy that has been proven to be able to answer all of the fundamental problems. The immediate benefits received by the farmers include regaining their control over production factors and having better bargaining power, control over more land, easy access to finance their agricultural business, more productive labor, and more proportional involvement in risk management. The Interest-Free Unsecured Micro Loan in the oil palm sector program in Bangka Regency was proven to be able to boost the improvement of the regional economy as indicated by an increase in the farmer exchange rate and an improvement in the Gini ratio.

**Keywords:** Innovation, Micro credit financing, Oil palm, Interest-free unsecured loan.

## 1. INTRODUCTION

The economic structure of Bangka Regency today is still dominated by the agricultural sector. Bangka Regency's Central Bureau of Statistics (2021) reported that in 2019, the agricultural sector contributed 19.54% to the GRDP, which later increased to 20.44% in 2021 [1]. The dominance of the agricultural sector in this regency is mainly attributed to its area predominantly consisting of rural areas. Based on the pattern, agriculture and rural areas are closely related with poverty. In fact, the highest contributors of Bangka Regency's poverty rate are 6 rural sub-districts that make agriculture, specifically oil palm, as the main pillar of the community and regional economy.

Within the last 5 years, the poverty rate of

Bangka Regency has increased, from 5.20% in 2014 to 5.47% in 2018. Six rural sub-districts, with the majority (32.88%) of their residents being farmers [2], contributed the most to the steep poverty rate. The high poverty rate in the rural areas is caused by the dependence of most households on the agricultural sector, particularly on the oil palm commodity.

The problem lies in the fact that most of these oil palm farmers are bound in a one-way deal with a partner company. A contract farming system that utilizes a principal agent means that the farmers do not have control over their factors of production. Consequently, farmers have weak bargaining power over their lands, agricultural financing, selling price, labor, and even in terms of

risk management. This situation has led to “institutionalized” poverty in Bangka Regency, making it a particularly challenging issue to solve. However, if the issue remains unaddressed, the farmers' welfare will only become worse, the poverty rate will increase even more, and the regional economy will be more contractual, thus widening the gap of income inequality and conflict between farmers and state. According to Yustika that plantation policies have caused conflict in Indonesia [3]. The questions of independent smallholder institutional engineering through regulation, organization, and resources are determined by the farmer household economic factors and the application of the value of local wisdom [4].

With this rationale, the Government of Bangka Regency has implemented a policy to address the issue in an integrative manner. An Innovation of Interest-Free Unsecured Micro Loan for People's Oil Palm Plantation is an effective policy that has been proven to solve all of the fundamental issues. The direct positive impact of the policy is that the farmers now have more control over their factors of production, more bargaining power, possession over larger land, easier access to agricultural financing, more productive labors, and more proportionate involvement in risk management.

## 2. IMPLEMENTATION

The Interest-Free Unsecured Micro Loan Innovation for People's Oil Palm Plantation in Bangka Regency has been implemented in the following steps:

1. The Government of Bangka Regency initiated the People's Oil Palm Plantation Program in 2004 (Stage I) with an area of 250 ha for 125 Households. The program continued in 2007 (Stage II), 2013 (Stage III), 2015 (Stage IV) and 2016 (Stage V) and is still ongoing today. In this program, the Government of Bangka Regency provides an Interest-Free Unsecured Loan to the farmers of People's Oil Palm Plantation to finance the land clearing process in the first year and the purchase of production materials such as fertilizer, pesticide, and other supporting facilities in the first, second, and third year.
2. In order to realize three pillars of development, the Government of Bangka Regency seeks the involvement of private-owned large plantation

companies in Bangka Regency with a lot of experience in the oil palm farming and processing industry.

3. The involvement of private entities is bound by a cooperation agreement between the Bangka Regency government and the plantation companies. The agreement contains several important points, among others: the plantation companies are required to prepare certified oil palm seeds, provide technical coaching and plantation management, accepting Fresh Fruit Bunches from the farmers, and take the sale of Fresh Fruit Bunches from the farmers as settlement of the loan to the government and plantation company. The plantation companies shall transfer the payment from the farmers to the government through banks that are appointed by the Government of Bangka.
4. In this program, each farmer is required to prepare a 2-hectare land along with the land certificate (SKT) from Head of Sub-districts as collateral to the government.
5. The disbursement of loan to People's Oil Palm Plantation farmers shall be done according to Collective Needs Business Plan (RUKK) that has been formulated by the Bangka Government, specifically by the relevant technical Office in charge of plantation, the plantation companies as the consultant on required production facilities, and also the farmers of People's Oil Palm Plantation.
6. The community, as the participants of People's Oil Palm Plantation, plays a pivotal role to the success of the People's Oil Palm Plantation's program, as the labor and land are provided mainly by the participants of People's Oil Palm Plantation, while the companies and the government only provide coaching and monitoring of the implementation of People's Oil Palm Plantation's activities.
7. The farmers of People's Oil Palm Plantation are required to pay the loan back through installments to the government of Bangka regency for financing their plantation development for 3 (three) years and to the plantation company for the provision of oil palm seeds.
8. Farmers of People's Oil Palm Plantation shall begin paying the loan back in the fourth and fifth year and/or after the oil palm begin producing Fresh Fruit Bunches.
9. The settlement of the farmers' loan shall be

calculated proportionally based on the sale of Fresh Fruit Bunches with a ratio of 30% for the loan settlement to the government and plantation company, while 70% of the sale shall be given back to the farmers for maintaining the People's Oil Palm Plantation and for the livelihood of the farmers.

### 3. RESULTS AND DISCUSSION

In 1990, there was a revolution of oil palm plantation in Bangka Regency. The growth of oil palm plantation industry was expected to contribute to the regional economy, improve the people's welfare, and provide new job opportunities. However, the results so far do not live up to the expectation. The local community are still living in poverty, with most of them working as cheap labors. They also lost their access to lands that have been taken over by oil palm plantation companies. It is also difficult for them to develop their own oil palm plantation due to financial limitation, not having good oil palm seeds, and a lack of knowledge on oil palm cultivation, as well as the high unemployment rate.

Private-owned oil palm companies only helped the economy of entrepreneurs and certain group of people. The condition of the local community and oil palm farmers became a special concern of the Government of Bangka Regency, which suggested the idea to synergize the many elements of the community: companies, banks, and Regional Government, in order to address the issue of poverty and unemployment through the innovation of "Interest-Free Unsecured Micro Loan for People's Oil Palm Plantation". The goal of this innovation is promoting income and employment of agricultural community. The target of this innovation are the local community/farmers who live around oil palm plantation companies who have the Innovation-Free Unsecured Micro Loan Innovation for People's Oil Palm Plantation and support sustainable development goals, specifically with regard to goal 1 (no poverty), goal 2 (no hunger), goal 8 (adequate job availability and economic growth), goal 10 (reduced income inequality), and Goal 17 (Partnership towards a Shared Goal). Based on the results of research conducted by Setiawati that the People's Oil Palm Plantation has an impact on the welfare of farmers in the economic and social fields [5].

Organisations wanting to improve their agriculture lending operations would do well to

examine the general factors of success as well as any specific to their area and compare these against their own current policies, procedures and operating guidelines [6]. The People's Oil Palm Plantation program involves 3 (three) pillars of Development, namely regional government, bank and farmers, and oil palm plantation companies, each with their own role and contribution that are interrelated. There are various sources to finance of the development of People's Oil Palm Plantation:

1. Land clearing and production facilities, such as fertilizer, pesticide, and other supporting facilities for 3 years, are funded by Bangka Regency government through the Regional Revenue and Expenditures Budget (APBD).
2. Oil palm seeds for farmers' lands are provided by the oil palm plantation companies.
3. Labors are provided by the farmers who participate in the People's Oil Palm Plantation.
4. Campaign, Coordination, Facilitation, Coaching, Monitoring and Evaluation activities in the People's Oil Palm Plantation program are funded by Bangka Regency government through the Regional Revenue and Expenditures Budget (APBD) These activities are routinely supported by technical office in charge of plantation. The purpose of the program is mobilizing and synchronizing the perception of various parties in order to realize the success of People's Oil Palm Plantation program. All tasks and responsibilities of each party are outlined in the cooperation agreement.
5. Another resource to the program is PT. Bank Syariah Mandiri as the partner of Bangka Regency Government with regards to the disbursement of interest-free unsecured loan to farmers who participate in the People's Oil Palm Plantation program.

In order to make this innovation sustainable, the following strategy is formulated:

1. Institutional strategy, in the form of stipulation of several policies of the Bangka Regency Government as follows:
  - a) Bangka Regent's Regulation No. 5A of 2014 on the Implementation of People's Oil Palm Plantation Program in Bangka Regency;
  - b) Memorandum of Understanding between Bangka Regency Government and Plantation Companies No. 524/017/Hutbun/2004;
  - c) Cooperation Agreement between the

Plantation Office and Plantation Companies No. 524/353/Hutbun/2004

- d) Cooperation Agreement between Bangka Regency Government and Bank No. 525.29/870/BPKAD/2018;
  - e) Bangka Regent's Decree on The Establishment of Farmers Group as Participants of Program No.188.45/382/Hutbun/2004;
2. Social strategy, namely the involvement of people's oil palm farmer group as the main program target, while the partnership with plantation company, bank, and Bangka Regency Government serves as initiator. All parties shall synergize and perform their respective rights and obligations. The community or farmers shall not only be the beneficiary of this program, but they shall also participate in the implementation of the program by providing land and labor.
  3. Managerial strategy, in the form of training for farmers and supporting officers, and implementation of Standard Operational Procedure of People's Oil Palm Program in cooperation with Plantation Companies and Bangka Regency Government.

Bangka regency government is committed to supporting the resilience of impoverished people in Bangka Regency as stated in a mission in their Regional Medium-Term Development Plan (RPJMD) of 2018-2023, which is Realizing a Sustainable and Competitive Regional Economy. The results of this innovation are as follows:

1. An increase in Bangka Regency's GRDP (PDRB) per capita, from 35.36 in 2015 to 49.03 in 2021.
2. An increase in Bangka Regency's GRDP (PDRB) growth, from 4.53 in 2017 to 7.48 in 2021.
3. An increase in participants of the program, from 125 households to 697 households.
4. An increase in the area of agricultural land, from 250 hectares to 1,392 hectare
5. An increase in number of farmer group, from 5 groups to 26 groups.
6. An increase in Farmer Exchange Rate (NTP), from 84.65 (2019), to 113.46 (2020) and 123.80 (2021) [7].

#### 4. CONCLUSION

The People's Oil Palm Plantation Program has provided an interest-free unsecured loan to

farmers with the involvement of oil palm plantation companies and Bank Syariah Mandiri. There are several benefits that have been received by the farmers who participate in the People's Oil Palm Plantation Program through the interest-free unsecured loan: their oil palm has been harvested and bought by oil palm plantation companies for a fair price in accordance to the monthly price set by the Governor. The crop yield of the People's Oil Palm Plantation is priced, bought, and stored by the companies, so to improve the livelihood of the oil palm farmers in Bangka.

This innovation has led to more job opportunity and revenue for the community through the development of people's oil palm plantation, improving Oil Palm Plantation Development efforts between the government, the community, and business owners, and promoting regional economic control by involving the community and local business owners, in order to promote the development of the region's economy and empower the farmers. The target group of this People's Oil Palm Plantation Program is the community of farmers who live in the plantation area and plantation companies. They are bound by a cooperation and partnership agreement for 1 (one) agricultural cycle or 25-30 years as long as the oil palm plantation still produce fruits.

The People's Oil Palm Plantation Interest-Free Unsecured Micro Loan innovation is an effective policy that has been proven to solve all fundamental issues. The immediate benefits received by the farmers include regaining their control over production factors and having better bargaining power, control over more land, easy access to finance their agricultural business, more productive labor, and more proportional involvement in risk management.

#### ACKNOWLEDGMENTS

The researcher would like to thank related parties, namely colleagues who have worked together in preparation and related institutions, especially the Central Agency on Statistics Bangka Belitung Islands Province which has provided the necessary data.

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