

# Monitoring the Socioeconomic Impact of the 2008/2009 Global Financial Crisis in Indonesia

Local  
Monitoring

## Impact on the Livelihoods of the Oil Palm Plantation Community in Riau

No. 01/FS/2009

October 2009

Fact sheet

*Since the 2008/09 global financial crisis (GFC), the price of crude palm oil has fallen sharply. This has had a negative impact on the people of one village in Riau who depend on oil palm plantations and processing. Their incomes have slumped drastically due to the fall in the price of oil palm fresh fruit bunches, fewer shifts and reduced working hours in palm oil factories, fewer opportunities for employment as freelance workers in oil palm plantations, and a rise in the price of fertilizer, agricultural chemicals, and staple food. Oil palm plantation laborers have suffered the most from the crisis. When the price of fresh fruit bunches reached its lowest point, many freelance workers lost their jobs, young people stole the oil palm fruit and rubber sap, the wives of plantation laborers were forced to seek odd jobs, and some high school students were forced to drop out of school. Although the price of fresh fruit bunches has started to climb again, the increase has not been significant and is still not capable of improving the economic condition of the community to the pre-crisis level.*

### Why Was the Oil Palm Plantation Community in Riau Selected for Observation?

In the Province of Riau, oil palm plantations, as well as oil and gas mining, are the mainstays of the economy. Approximately 35% of Indonesia's total oil palm plantations are located in Riau.<sup>1</sup> Of the 11 *kabupaten* (districts) and *kota* (cities) in Riau, Kabupaten Kampar has the largest plantation area. There are four systems of oil palm plantations in this *kabupaten*: nucleus estates operated by transmigrant communities (Perkebunan Inti Rakyat—Transmigrasi—PIR—Trans), company-operated nucleus estates (Perusahaan Inti Rakyat—Perkebunan—PIR—Bun), estates under the KKPA program (Kredit Koperasi Primer untuk Anggota—a credit scheme provided by a cooperative for its members), and community-owned plantations. These plantations have an important role in the life of the community, especially for those working as farmers, *toke* (intermediaries),

*mocok-mocok* (freelance workers), plantation laborers, and factory workers. Of these four different systems, the sector that has been hardest hit by the crisis is the community-owned plantations sector. When the crisis began, factories prioritized the production of oil palms from their own plantations and, as a consequence, the production of oil palms from the community's plantations could not be accommodated. So that, the price fell to its lowest point.



Figure 1. A typical scene in an oil palm plantation

Based on Statistics Indonesia data for 2007, the *kecamatan* (subdistrict) with the highest level of community oil palm production in Kabupaten Kampar is Kecamatan Tapung Hulu, with most plantations in Desa Senama Nenek, the capital of the *kecamatan*. Therefore, this village was selected as the research site.

### What is the Condition of the Local Area and the Community in Desa Senama Nenek?

Desa Senama Nenek is the oldest village in Kecamatan Tapung Hulu. It is inhabited by people from five different indigenous ethnic groups: Malay, Piliang, Petapang, Domo, and Mandiling. There is also a population of migrants who are mostly Javanese, Batak, or come from Nias. Most of the migrants work for one of the eight oil palm plantation companies that are either privately- or state-owned and operate in the vicinity of the village. The area of the village is 155,912 ha and the population of 12,252 consists of 6,050 women and 6,202 men. There are 3,438 households. The village is located approximately 60 km from the *kabupaten* capital and 135 km from the provincial capital.

The people of Senama Nenek generally work as oil palm planters, either as plantation owners, freelance workers, or casual plantation laborers. The cultivation of oil palms was introduced to the local community when a state-owned plantation company opened an oil palm plantation for transmigrants (PIR-Trans) in 1986. At that time, the community was still engaged in shifting agriculture, gathering forestry products such as rattan and timber, river fishing, and hunting. After observing the success of some village communities that had joined the PIR-Trans Program in the 1990s (the PIR-Trans was required to allocate 20% of their plantation area for the local community), other village communities became interested in opening their own oil palm plantations. Community-owned plantations average 1–5 ha in size.

On the basis of discussions with the community, approximately 5% of the population is classified as *wealthy*, 32% as *better-off*, 43% as *poor*, and 19% as *poorer* (destitute). This classification is based on criteria that were determined by the community, with reference to income level, area of land owned, type of work, asset ownership, capability of sending children to school, and ability to seek medical treatment. Those classified as *wealthy* generally have an income of more than Rp100,000 per day; have at least 5 ha of land; work as a *toke*; have a private vehicle, motorcycle, or Colt mini-truck; are able to educate their children to tertiary level; and if they are ill, are able to seek medical care in Pekanbaru and Bangkinang. Those classified as *poor* only have 1–2 ha of land, while the *poorer* work as freelance workers in the oil palm plantations and do not have any plantation land.

## What Impact Has the Global Financial Crisis Had on the Village Economy?

### Changing Price of Palm Oil, Production Inputs, and Staple Food

As a consequence of the fall in the world price of crude palm oil since the onset of the global financial crisis in 2008, the price of a local oil palm fresh fruit bunch fell and reached its lowest point in November 2008. It then rose slowly; until May 2009 for the ceiling price from the provincial Plantation Agency (Disbun—Dinas Perkebunan), and until June 2009 for the farm-gate price.

Figure 2 describes the trend in the price of an oil palm fresh fruit bunch during the last year according to the ceiling price from the provincial Disbun and the farm-gate price. The price difference between the two reached 30% due to the poor quality of fresh fruit bunches from community-owned plantations. There were various reasons for the poor quality of the community's fresh fruit bunches, including (i) inadequate fertilizing and gardening; (ii) the crop was still immature; (iii) the frequent mixing of ripe and unripe fruits; and (iv) the volume of rubbish in the fresh fruit bunches. The falls in the ceiling price and the farm-gate price did not happen simultaneously. The rise in the farm-gate price appeared to lag approximately one month behind the rise in the price determined by the provincial Disbun.

In addition, the prices of the community's basic needs and inputs of agricultural production have risen. For example, the price of rice rose from Rp5,000 to Rp6,100 per kg. The price of urea rose from Rp1,800 to Rp8,000 per kg but then fell to Rp4,600 per kg. The price of herbicides rose from Rp30,000 to Rp75,000 per liter before falling to Rp52,500 per liter.

### Impact on Palm Industry

The fall in the price of an oil palm fresh fruit bunch has affected companies' activities and the condition of the workforce in the palm oil processing industry. In the factories visited, the production of crude palm oil has fallen, while crude palm oil that cannot be exported is being stockpiled in large quantities at the port of Dumai. Although there have not been any layoffs, shifts and factory working hours have been reduced from 12 hours to 10 hours per day. As a result, workers do not receive any overtime and bonuses, and are relying exclusively on their main wage of Rp1.4 million per month. Before the crisis, a factory worker could receive an income of approximately Rp1.9 million per month.

As was the case with factories, oil palm plantations, both those privately and state owned, also continued to employ their laborers, but overtime was abolished. Consequently, laborers did not receive any overtime pay or bonuses.

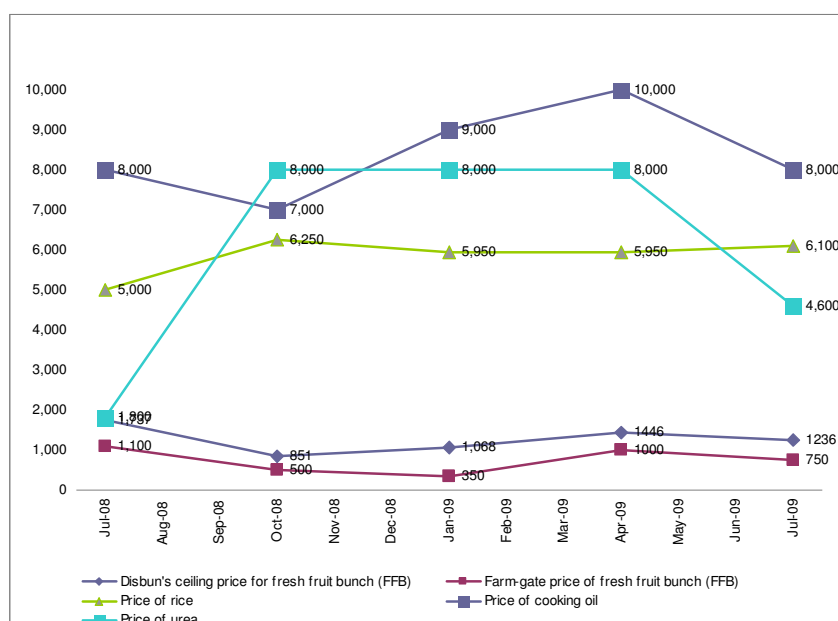


Figure 2. Change in the price of several commodities during the past year (July 2008–July 2009)

Before the crisis, a plantation worker (*pendodos*) could earn approximately Rp2,500,000 per month. After the crisis, however, a worker was only receiving the local minimum wage of Rp1,080,000 per month.

### **Impact on the Management and Workforce of Community-Owned Plantations**

The impact of the 2008/09 GFC was quite severe among the community-owned oil palm plantations, especially when the price of an oil palm fresh fruit bunch fell to the level of Rp200–Rp300 per kg. At that time, many oil palm plantations were neglected—farmers did not clean or fertilize palm trees and they did not even bother to harvest them. This happened because they felt that the costs they incurred were not compensated by the income they received. Some farmers did continue to harvest their oil palms, but the harvest products were only piled up under trees. They explained that if the fruit was not harvested, the crop would rot. This situation led indirectly to the unemployment of the day workers who, until then, had been working in the community's plantations. To cover their living costs, some of the day workers then became "ninjas" (masked thieves), stealing the palm fruit or rubber sap, especially from the state- and privately-owned plantations. It is estimated that approximately 50% of the youth of Senama Nenek have been "ninjas". After conditions improved, and because they were caught and jailed, the number of "ninjas" declined.

### **Impact on the Community and Regional Economy**

The fall in the community members' incomes and purchasing power had an impact on the village's economic activities. For example, the circulation of money in the weekly market in Senama Nenek fell drastically from Rp400 million before the crisis to Rp100 million when the crisis was at its peak. At the end of July 2009, activities in the market had started to recover and turnover had reached Rp200 million each week. The market is not only utilized by local villagers, but also by people from other villages from the same *kecamatan* and villagers from outside the *kecamatan*.

Several other impacts have also been observed, including:

- a) Many repayments of loans for various brands of cars and motorcycles were outstanding, resulting in repossessions by the leasing company;
- b) Many repayments of loans from a village-based savings and loan fund known as UED-SP (Usaha Ekonomi Desa-Simpan Pinjam) and banks are also outstanding. Borrowers are generally farmers with plantation holdings of 2 ha or more;
- c) Purchases and sales of oil palm plantation land have increased. The type of plantation that was mostly sold was medium quality land or better. For example, there was one farmer with a plantation of 6 ha who sold 2 ha of his productive land; and
- d) The turnover of sales in *warung* (stalls) and to *toke* declined, while the number of community members who went into debt continued to rise.

## **What Problems Have Been Experienced by the Community?**

### **The Most Affected Community Groups**

According to the focus group discussions (FGDs) in Desa Senama Nenek, the community groups that have been most

severely affected by the crisis are the small-scale oil palm farmers who have less than one hectare of plantation land and the freelance workers employed on the community-owned oil palm plantations. These two groups belong to the *poor* and poorer categories. Before the crisis, in addition to working their own land, small-scale oil palm farmers also worked on the side as *mocok-mocok* for farmers with large land holdings. With the fall in the price of oil palm fresh fruit bunches, these farmers were hit in two ways simultaneously. Firstly, the sale of their own produce fell dramatically and, secondly, their income from their side too also fell because most plantation owners were not able to continue employing these farmers and the owners usually chose to work the plantations themselves. The same thing happened to those who worked exclusively as *mocok-mocok*; in fact, the impact on them was more severe. In addition to the reduced or lost opportunities for work as freelance workers, other work was also difficult to find. Returning to past work such as looking for forest products was also no longer possible because the forest had been converted into oil palm plantations.

After the price of oil palm fresh fruit bunches rose again, community life started to slowly recover but it has still not yet reached the pre-crisis level. The price of oil palm fresh fruit bunches is still considered too low and is causing financial losses for farmers. At the current price of Rp800 per kg, farmers have difficulty fertilizing the oil palm crop. If this situation continues for much longer, the community's oil palm plantations will eventually be destroyed. In addition, without fertilizer, the amount of crop harvested will fall drastically. An appropriate price for fresh fruit bunches is considered to be approximately Rp1,200–Rp1,500 per kg. At this price, apart from being able to fertilize the crop, farmers are also able to send their children to junior or senior high school.

### **Impact on Women**

Before the crisis, in general, the women in this village looked after their family or assisted their husband on the farm. After the crisis, some were forced to seek a living by working as freelance workers, domestic workers, or selling things. However, because they received a smaller wage than they had previously, their household welfare level has not yet recovered. Wage levels that were previously Rp50,000 per day have fallen to as little as Rp30,000 per day.

### **Impacts on Children and Youth**

In general, there was no impact on children attending primary school because pupils were exempted from school fees. In addition, the schools were in the vicinity of the village, so they families did not incur any transport costs. The impact of the crisis was only felt by the children in that they had less money for snacks. Previously their snack money was, on average, Rp2,000–Rp3,000 per day, but this fell to just Rp1,000 per day during the crisis.

On the other hand, youth, especially those attending junior or senior high school outside the village in Bangkinang or Pekanbaru, were very much affected by the crisis. When the price of oil palm fresh fruit bunches was at its lowest point, many school children from this village were forced to stop going to school. After the price of palm fruit started to improve, some of these children could have returned to school; however, because the schools required them to re-register as a new student, some parents were not able to pay the fees. In addition, although at the junior high school level students are exempt from school fees, many parents could not afford living costs such as accommodation, transport, and food for their

children. As a result, the dropout rate of students attending junior and senior high school outside the village is quite high and is estimated to have reached approximately 20%.

### What are the Survival Strategies? What Assistance has the Community Received?

At the time of field study, neither the government nor NGOs have made any special effort to mitigate the impacts of the global financial crisis in Senama Nenek. The Governor and *Bupati* (head of the district) has just released an appeal to companies to continue buying oil palm fruit from the community. The community's oil palm was eventually accepted by the factories but at a low price, following a fall in the price of crude palm oil on the international market. This price could, in fact, fall further because the factories are prioritizing company-owned plantations.

Government programs that have been implemented such as Raskin (Rice for the Poor), BLT (Direct Cash Transfers), Jamkesmas (Health Insurance Scheme for the Poor), and BOS (School Operational Assistance) are considered to be beneficial to the community. Raskin rice can be purchased by almost everyone in the village because it is distributed equally, while approximately 400 households receive BLT payments. In 2008 and 2009, the *kabupaten* government of Kampar provided an assistance program for the construction of as many as three housing units for the poor per year.

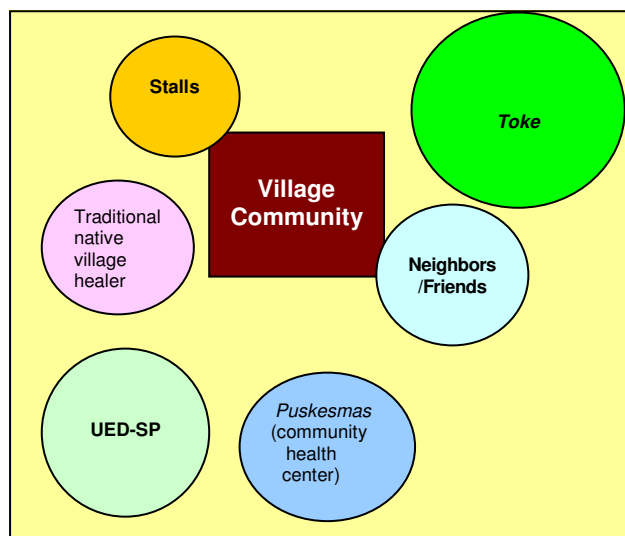


Figure 3. Venn Institutional Diagram from Women's FGD

Since 2006, the Governor of Riau has provided Rp500 million for a revolving funding program that is distributed through UED-SP (village economic business – loan and saving) to the community in Senama Nenek. This funding has now grown to Rp1.6 billion. Loans can be as much as Rp20 million, most of which is used for the cost of cultivating the oil palm crop. In order to borrow from the fund, farmers have to provide collateral in the form of SKT (*surat keterangan tanah* or land ownership statement) for the UED and BPKB (*bukti pemilik kendaraan bermotor* or motor vehicle ownership certificate) for SP. Loans below Rp2 million that are usually used for financing a stall business do not need collateral. This credit, however, can not be enjoyed by the poor who do not own businesses. In facing the crisis, UED-SP gave a debt concession to

borrowers by allowing a deferral of credit repayments during the height of the crisis. These payments accrued on the date they were due.

There is no NGO assistance or company assistance in the form of CSR (corporate social responsibility) in Senama Nenek. Company assistance is provided only incidentally in the form of voluntary contributions, to celebrate 17 August (Indonesian Independence Day) or Lebaran (to celebrate the end of Ramadan). However, according to the community, this assistance caused a cut in the farm-gate price of fresh fruit bunches.

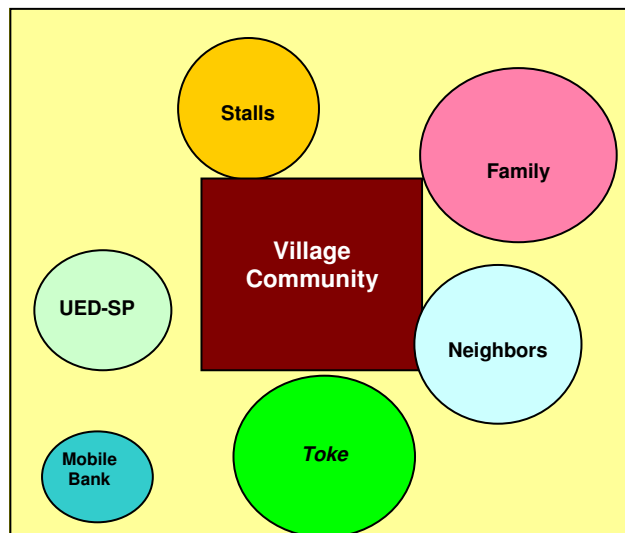


Figure 4. Venn Institutional Diagram from Men's FGD

Discussions with the men's and women's groups show that there is still a significant role of informal institutions in facing the crisis. According to the women's group, the informal groups considered to have the greatest role are *toke*, stalls, and UED-SD, while the closest are stalls and neighbors/friends. According to the men's group, the most important institution is the family, followed by shops and neighbors, while on the factor of closeness, family, stalls, and neighbors are considered the closest. ■

This fact sheet was prepared by Bambang Sulaksono, Herry Widjanarko, Arifudin, and Kausar and is based on the field research conducted by Bambang Sulaksono, Herry Widjanarko, Arifudin, and Kausar at the end of July 2009. This field research was the first of the three visits that are planned to be conducted every four months under the umbrella of the Monitoring the Socioeconomic Impact of the 2008/2009 Global Financial Crisis in Indonesia research being undertaken by The SMERU Research Institute. Editors: Budhi Adrianto and Kate Stevens. Translator: Christopher Stewart.

Visit our website at:



<http://www.smeru.or.id>

<sup>1</sup>Explanation from a representative of the Riau Plantation Agency, 24 July 2009.