

EMPIRICAL EVIDENCE OF THE ROLE OF OIL PALM PLANTATIONS IN GDP-REGIONAL AND REDUCING POVERTY

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RESUME

Oil palm has become a strategic commodity for Indonesia. The economic benefits that Indonesia receives from oil palm plantations are indisputable. Exports of palm oil and its derivative products have also been recognized as a source of foreign exchange for non-oil and gas product groups. In fact, the contribution of the palm oil industry and its derivative products as foreign exchange contributors is also more recognized amid the pandemic, namely by generating an accumulated export value of USD 8.43 billion during January-May 2020 (BPS, 2020).

The contribution of oil palm plantations is also felt by 235 regencies in Indonesia that are centers for palm oil production through increasing local revenues to reducing poverty. The presence of private companies in rural areas has an impact on improving the welfare of farmers in rural areas. However, until now, there is still the opinion of the community, especially those who are anti-palm oil, who say that the oil palm industry is only controlled and enjoyed by large-scale companies and does not contribute to the economy of production centers.

Many result research shows that the existence of oil palm plantations is proven to have an impact on increasing Gross Regional Domestic Income (GRDP) in oil palm central areas. Increased production of CPO (for example due to consumption, downstream investment, exports) will create economic benefits that are not only felt in the oil palm plantation itself, but these benefits occur outside of oil palm plantations (regional economic sector) such as financial institutions, trade/restaurants, hotels, transportation, infrastructure, and other sectors. The real proof is the creation of a new economic center as a new agricultural cities based on oil palm plantations in remote areas. In addition to increasing GRDP, the development of oil palm plantations in rural areas is also able to produce other economic benefits, namely reducing poverty. This also shows that oil palm plantations have actively become actors and take part as a solution in order to achieve SDGs-1, poverty reduction (No Poverty).

INTRODUCTION

Oil palm has become a strategic commodity for Indonesia. The economic benefits that Indonesia receives from oil palm plantations are indisputable. Based on the latest Directorate General of Plantation's data update (2020), the area of oil palm plantations has reached 14.32 million hectares in 2018 and is capable to produce 42.88 million tons of palm oil (CPO) and 8.58 million tons of palm kernel oil (CPKO). Exports of palm oil and its derivative products have also been recognized as a source of foreign exchange for non-oil and gas product groups. In fact, the contribution of the palm oil industry and its derivative products as foreign exchange contributors is also more recognized amid the pandemic, namely by generating an accumulated export value of USD 8.43 billion during January-May 2020 (BPS, 2020).

The contribution of oil palm plantations is also felt by 235 regencies in Indonesia that are centers for palm oil production through increasing local revenues to reducing poverty. The presence of private companies in rural areas has an impact on improving the welfare of farmers in rural areas. Through a partnership program between farmers and the private sector that began in the 1980 period, it has given birth to a revolution in Indonesian oil palm agribusiness. The development of this revolutionary oil palm plantation is capable of creating new economic growth centers in remote areas.

However, until now, there is still the opinion of the community, especially those who are anti-palm oil, who say that the oil palm industry is only controlled and enjoyed by large-scale companies and does not contribute to the economy of production centers. Therefore, this paper aims to present information about the contribution of oil palm plantations to the regional economy. It is expected that information based on valid data and facts will be able to answer questions so that no more misguided opinions will growing regarding the contribution of the palm oil industry to the economy.

OIL PALM AS ECONOMIC LOCOMOTIVE THAT PLAYS A ROLE IN INCREASING GRDP

Oil palm plantations as the spearhead of the palm oil industry, are usually located in remote, marginal and isolated area. The location characteristics were considered suitable by the Indonesian Government especially in 1980s by making oil palm plantations as a part of agricultural development and regional development through a transmigration program, has been aimed at opening and building new economic growth centers in rural areas.

The development of oil palm plantations by state-owned enterprises (BUMN) and/or private companies, are a pioneering economic activity in the context of rural development. The state and private companies must open the area with access roads and bridge, farm roads, build employee housing, educational and health facilities, social.

Oil palm plantation companies also develop plasma plantation by involving local communities as a plasma farmers from the companies as a nucleus in PIR collaboration or other form of partnership. The development of new nucleus-plasma plantations has attracted investments from local farmers who are not part of the nucleus-plasma scheme to jointly grow oil palms on their land and these plantations are categorized as individual smallholder farmer's plantations. The number of individual smallholder has estates grown rapidly in many places and, therefore, the areas of people's plantations are larger than that of the nucleus-plasma plantations (PIR).

The more prospective oil palm commodity compared to other plantation commodities has caused many rural farmers to convert their plantations to oil palm plantations. This conversion resulted in an increase in farmers' income. This is confirmed by the research by Utami et al. (2017) who conducted research in Penyabungan Village. The research shows that the farmers converted part or all of their rubber plantations into oil palm plantations. This conversion resulted in an increase in farmers' income by 33.42 percent.

Siradjuddin (2015) also explains that farmers plant oil palm for several reasons including easier marketing, the need for production facilities are easy to obtain, easy oil palm cultivation, and high selling prices and farmers' income. Farmers prioritize the income from oil palm farming for children's education, expansion and repair of houses, purchasing motorized vehicles, and expanding their oil palm plantations.

The growth of oil palm plantation is also able to encourage the development of other economic sectors. The people working in oil

palm plantations are also consumers of food and non-food products produced by urban and rural communities. Based on public expenditure data (BPS, 2016), the value of transactions between the people on the oil palm plantations and the rural communities amounted to Rp 92 trillion per year, meanwhile transactions with the urban communities reached Rp 336 trillion per year. So the total transactions between the people on the oil palm plantations and in the communities outside the oil palm estates nationally reach Rp 428 trillion per year.



Figure 1. Value of Transactions between Oil Palm Plantation Communities with the Rural and Urban Economy

These findings are also in line with various empirical studies that have shown evidence that the presence of oil palm plantations in rural areas provides real benefits to the rural economy. Supriadi (2013) states that the development of oil palm plantations has resulted in high population mobility so that areas around plantation development appear some centers of economic growth in rural areas. This condition increases the purchasing power of rural communities, especially for basic needed of household and the need for production facilities for oil palm plantations. It is estimated that the circulation of money that occurs at the location in the long term will stimulate economic growth in this region with the growth of trade and services.

This means that the economic benefits created by the growth of oil palm plantations are not only enjoyed by community actors/working on oil palm plantations, but

are also enjoyed by people who work outside oil palm plantations in rural and urban areas. This condition shows that oil palm plantations are inclusive economic sectors because the economic benefits are felt by all parties, not only those who are directly involved in oil palm plantations (companies, company workers and farmers).

Rifin's research results (2011) revealed that an increase in palm oil production in oil palm plantations will produce a multiplier effect (output, income, labor and value added) in ten rural sectors outside of oil palm plantations (rural non-farm economy). The ten sectors are (1) financial services; (2) other services; (3) trade, restaurants and hotels; (4) chemical industry, fertilizer and pesticides; (5) oil, gas and mining; (6) transportation; (7) infrastructure; (8) food industry; (9) machinery and electricity; and (10) other sectors.

Other evidence that shows oil palm plantations as an inclusive economic locomotive is the development of remote and quiet areas, underdeveloped due to oil palm plantations becoming new economic centers as an agropolitan. According to the Manpower and Transmigration Ministry

(2014), by 2013 at least 50 rural and disadvantaged regions were developed into new growth areas whose basis is CPO production. A list of new centers of economic growth in the regions due to oil palm development can be seen in Table 1.

Table 1. List of New Centers of Economic Growth Based on Oil Palm

Provinces	New Centers of Economic Growth Based on Oil Palm
North Sumateran	Stabat, Belarang, Sei Rampah, Limapuluh, Perdagangan, Rantau Prapat, Aek Kanopan, Aek Nabara, Kota Pinang, Sosa, Sibuhuan, Panyabungan and others
Riau	Pasir Pengaraian, Bangkinang, Siak Sri Indrapura, Rengat, Tembilahan, Bengkalis, Bagan Siapi-api, Teluk Kuantan, Dumai, Pekanbaru and others
South Sumateran	Sungai Lilin, Tugumulyo, Pematang Panggang, Bayung Lencir, Musi Rawas, Peninjauan, Muara Enim, Lahat
Jambi	Sarolangun, Sungai Bahar, Sengeti, Kuala Tungkal and others
Central Kalimantan	Sampit, Kuala Pembuang, Pangkalan Bun, Kasongan and others
East Kalimantan	Sangatta, Tenggarong, Tana Pase, Tanjung Redeb, Nunukan, Sendawar and others
South Kalimantan	Batulicin, Kotabaru, Pelaihari and others
Sulawesi	Mamuju, Donggala, Bungku, Luwu, Pasangkayu, and others

Source: Manpower and Transmigration Ministry (2014)

Thus, oil palm plantations in rural areas do not exploit rural resources but instead, through the development of the plantations, attract substantial new investment into isolated rural areas in such a way as to transform underdeveloped areas into new growth centers. This statement is also confirmed by the World Growth (2011) study, which says that oil palm plantations in Indonesia are an important part of rural development.

The results of the study of PASPI (2014) also show that the growth of palm oil (CPO) production has a positive and significant effect on the growth of the Gross Regional Domestic Product (GRDP) in the palm oil centers. Regional economic growth is very responsive to increased palm oil production. This suggests that increased palm oil production attracts greater regional economic growth than increases in CPO production (Figure 2).

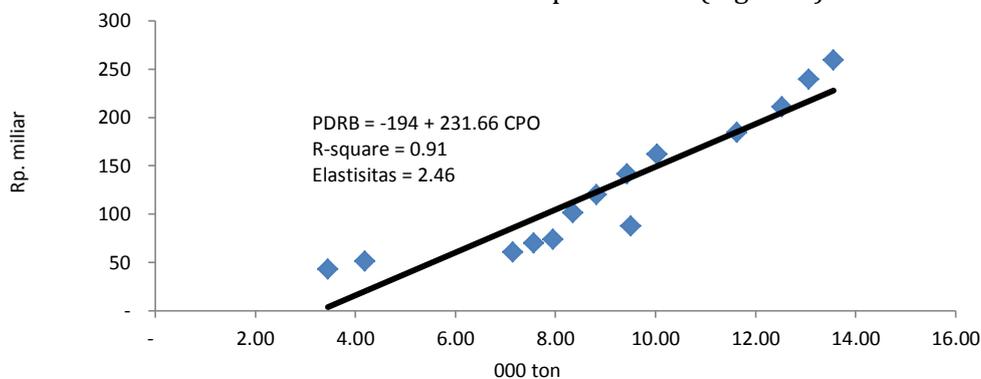


Figure 2. The Effect of CPO Production on Gross Regional Domestic Product (Source: PASPI, 2014)

Thus, the growth of oil palm plantations in rural areas increases the capacity of the regional economy to generate output, income and job opportunities both in oil palm plantations and in other sectors (rural non-farm) in these areas. Even the multiplier effect of oil palm plantation development, but also enjoyed by other modern sectors such as financial institutions, restaurants and hotels, food processing and the electric equipment and manufacturing sector. This shows that the development generated by oil palm plantations has broader implications for the regional economy.

THE CONTRIBUTION OF OIL PALM PLANTATIONS IN REDUCING REGIONAL POVERTY

During the period 2005-2016, there was a decrease in the number of poverty in Indonesia and the poverty that experienced this decline mostly occurred in rural areas, it is around 6 million people (PASPI, 2018). Meanwhile, urban poverty in the same period decreased by around 2.8 million people. This means that rural development is more successful in reducing poverty compared to urban areas. This is thought to be the result of the development of oil palm plantations in remote areas.

The contribution of the palm oil industry in reducing poverty is supported by the results of research by Syahza (2011) in Riau Province, which is the region with the largest palm oil production in Indonesia. The development of oil palm plantations in the Riau Region has an impact on economic activities in rural areas. The growth rate of the welfare index for oil palm farmers in Riau in 1995 was 0.49, which means that the welfare growth rate increased by 49 percent. In 2003 the oil palm farmer welfare growth index increased to 1.72. This means that the growth of the welfare of oil palm farmers experiencing progress by 172 percent. Oil palm plantation activities in rural areas create a multiplier effect of 2.48, especially in employment and business opportunities (Syahza 2004). This is proof that the development of oil palm plantations has had an impact on the acceleration of economic development of the Riau community, thereby contributing to efforts to alleviate poverty in rural areas.

According to the World Bank, the rapid development of oil palm plantations in Indonesia has made an important contribution to poverty reduction. PASPI (2014) also was prove that increasing palm oil production in oil palm plantation centers is closely related to reducing poverty. Increasing palm oil production significantly reduces rural poverty (Figure 3).

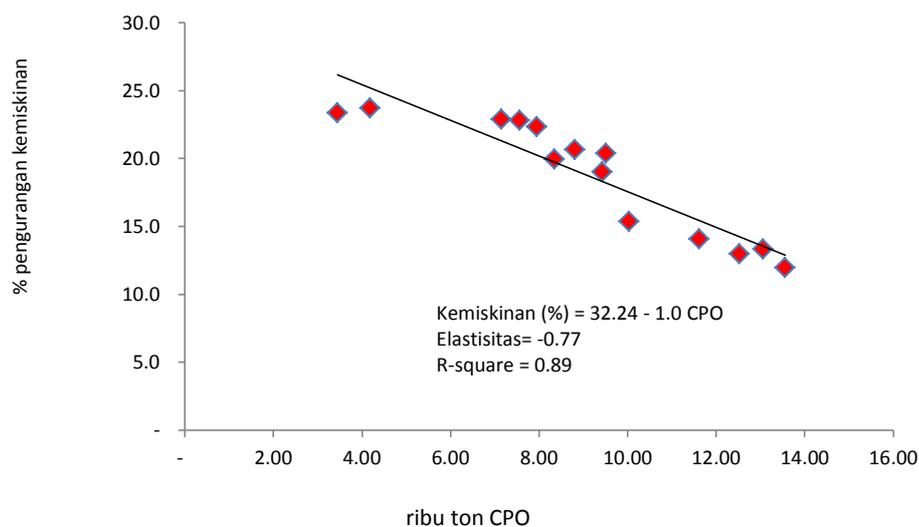


Figure 3. The Effect of CPO Production on Rural Poverty (Source: PASPI, 2014)

Various studies also prove that oil palm plantations are an important part of poverty reduction in Indonesia. Susila and Munadi (2008) and Joni et al. (2012) show that increasing national palm oil production reduces poverty. Goenadi (2008) suggests that more than 6 million people involved in Indonesian oil palm plantations escaped poverty. World Growth (2011) states that oil palm plantations in Indonesia have an important and significant role in reducing poverty. In fact, apart from increasing income, the presence of oil palm plantation also improves income inequality (Syahza, 2007).

The empirical evidences above has the same voice, namely the contribution of the Indonesian palm oil industry in reducing regional poverty. If it is related to the Sustainable Development Goals (SDGs) which is a global development platform, it shows that the palm oil industry can be positioned as actor has eole to take a part of the solution to achieving the first SDGs goal, poverty reduction (No Poverty).

CONCLUSION

Palm oil as a strategic commodity has contributed greatly to the Indonesian economy. The existence of oil palm plantations is proven to have an impact on increasing Gross Regional Domestic Income (GRDP) in oil palm central areas. Increased production of CPO (for example due to consumption, downstream investment, exports) will create economic benefits that are not only felt in the oil palm plantation itself, but these benefits occur outside of oil palm plantations (regional economic sector) such as financial institutions, trade/restaurants, hotels, transportation, infrastructure, and other sectors. The real proof is the creation of a new economic center as a new agricultural cities based on oil palm plantations in remote areas.

In addition to increasing GRDP, the development of oil palm plantations in rural areas is also able to produce other economic benefits, namely reducing poverty. This also shows that oil palm plantations have actively become actors and take part as a solution in

order to achieve SDGs-1, poverty reduction (No Poverty).

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