

# Towards Increasing the Productivity and Quality of Plantations

## An Analysis of the Plantation Sector's Budget and Planning

Muara Enim Regency – Province of South Sumatra

### Author:

Hadi Prayitno

### The Reform Initiatives

### Phone

+62 811 99 5259

### Email

hadi.prayitno@tri.or.id

### Website

www.tri.or.id

Jl. Ki Mangun Sarkoro No. 7  
Menteng, Jakarta Pusat

### Background

The Reform Initiatives (TRI) has developed a series of analytical instruments for examining budget policies in forest and land management. These instruments will assess the extent to which local governments effectively manage public finances for plantation development, and how well-oriented such development is towards improving public welfare and ensuring environmental sustainability.

Research was undertaken by processing and analysing local government budgets (APBD) from 2009 – 2012, with results from kabupaten Malinau outlined in the budget brief “Towards Increasing the Productivity and Quality of Plantations”.

The primary purpose of this research is to: (i) ascertain how local policies (budget and planning) improve the quality of forest and land management; (ii) analyse potential and realised forms of local revenue sourced from land-based industries; (iii) identify how and which local expenditure policies are accelerating improvements in forest and land management and; (iv) utilise budget instruments as a valuable means for helping regions improve their forest and land management.

### Low Commitment, Enormous Potential

Land use plans are based on the spatial patterns of plantations. Of Muara Enim's total area, the plan encompasses 311,218 hectares or 34 per cent. The types of commodities developed annually consist of palm oil, rubber, coconut, coffee, pepper, cotton, cocoa, patchouli and sugar palm.

The plantation sector, palm oil plantations in particular are a form of green 'gold' for Muara Enim, as the tremendous market need for palm oil occasionally forces prices to skyrocket. Naturally, the agricultural sector – namely the plantation sector – contributes the most to Muara Enim's Local Gross Domestic Product (PDRB), contributing 27.6 per cent in 2009.

The flagship plantation products sourced from Muara Enim are rubber, palm oil and coffee. In 2012, these three commodities experienced an increase in production compared to previous year and moreover, the number of farming families involved in their production increased to 216,535.

**Table I. Plantations in Muara Enim Regency**

Type of Plantation	Year		
	2009	2010	2011
A. Palm Oil	90.786,79	106.884,71	94.781
- Government (ha)	12.737	21.615	9.461,7
- Private (ha)	60.212,7	60.212,7	53.224,8
- Public (ha)	24.825	25.057	25.107
B. Coffee	23.404,5	23.495,0	23.501
C. Rubber	221.450,5	224.208,7	224.487

Source: Region in Figures 2009, 2010, 2011 and [www.migas.bisbak.com](http://www.migas.bisbak.com)

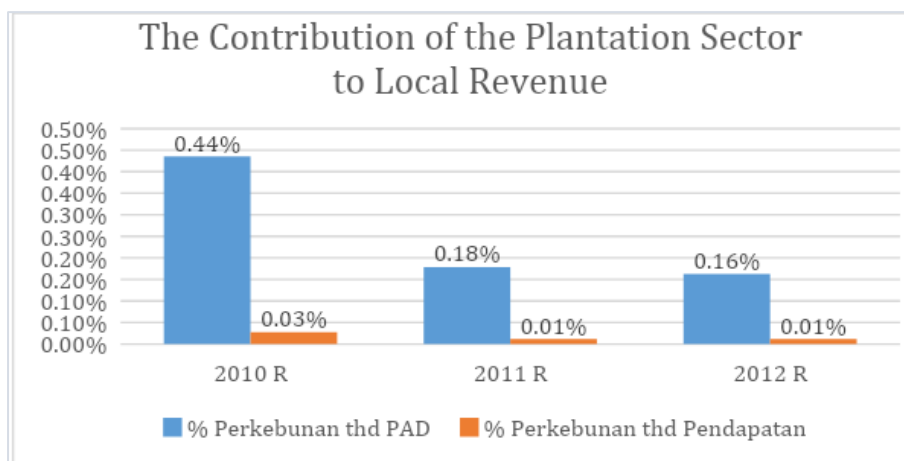
However, local development plans don't view plantations as a priority, despite the fact that they contribute 12.09 per cent<sup>1</sup> towards PDRB and occupy 34 per cent of the kabupaten's total area. Through the vision "realising a healthy, independent, religious and prosperous Muara Enim in Bumi Serasan Sekundang", only one policy related to plantation development can be found in its local development plans (the third mission statement), which aim to increase economic development based on local resources.

The third mission statement is further elaborated in the fourth development objective; to optimise economic development through an increase in economic growth targets, the equal distribution of income, the full participation of the workforce and the provision of infrastructure. However, none of the indicators relevant to the plantation sector had been scheduled to be achieved in the next five years<sup>2</sup>, indicating therefore, that Muara Enim isn't committed to building a plantation sector that can effectively prop up the local economy.

### The Contribution of the Plantation Sector to Local Revenue

The reality is that the national, regional and local growth of the plantation sector doesn't correlate with fiscal revenue. Based on results released by Indonesian Corruption Watch (ICW), agricultural and plantation taxes only contributed 1.25 per cent to Gross Domestic Product (PDB) in 2012. Such a low contribution from the plantation sector, however, isn't directly proportional to plantation growth, considering that plantations in Muara Enim occupy 34 per cent of the kabupaten's total area.

**Graph I. The Contribution of the Plantation Sector to Local Revenue**



In terms of Local Own-Source Revenue (PAD), plantations haven't been targeted as a form of local tax revenue or retribution. Indirectly, however, plantations have been developed as a levy source from the license distribution of the Right to Cultivate (HGU), contributing on average 0.02 per cent to local revenue between 2010 – 2012.

<sup>1</sup> Achievement of Muara Enim's Performance Indicators 2008-2012. Local Government Mid-Term Development Plan (RPJMD) 2013-2018, Chapter II – Overview of Local Conditions, pages II-91.

<sup>2</sup> Muara Enim's RPJMD 2013-2018, Chapter V – Vision, Mission, Objectives and Targets, as seen in Table 5.1, pages V-6.

## Fragmentation of the Plantation Development Program

The biggest commodities produced by the plantation sector are rubber, palm oil and coffee. The average rate of plantation growth of 2 per cent is, however, inversely proportional to productivity which has decreased by 18 per cent.

To counteract this trend, the central government has introduced a number of technical policies on plantation development. The policies aim to increase production, productivity, as well as the quality and sustainability of plantations through commodity development, better natural resource management, institutional and business partnerships, sustainable business investments, and the development of better information systems<sup>3</sup>.

The local government should be implementing these national policies by internalising specific program strategies<sup>4</sup>, and providing annual support from the local government's budget (APBD).

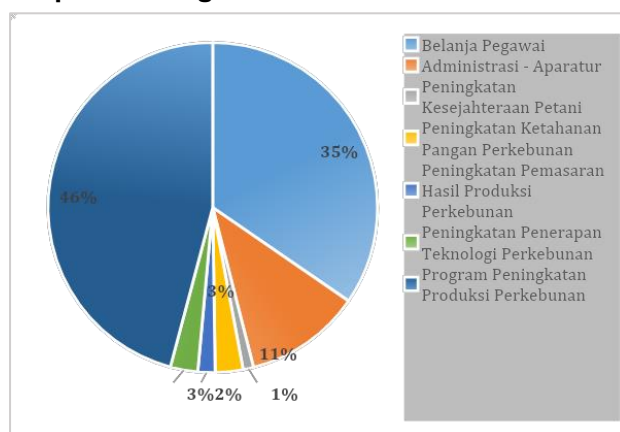
Moreover, local governments together with the central government and businesses are required to empower plantation businesses, as mandated in Law No. 18/2004 on Plantations, Chapter V, Article 18, Paragraph (1) and (2).

**Table 2. Plantation Area and Production 2009-2011**

Commodity	Land (Ha)			Production (Quintals)		
	2009	2010	2011	2009	2010	2011
Palm Oil	90.786,79	106.884,71	94.781,00	616.398	1.930.878	1.698.314
Coffee	23.404,5	23.495,0	23.501,0	24.357	25.126	25.132
Rubber	221.450,5	224.208,7	224.487,0	258.383	409.667	224.487

In actual fact, the plantation sector is still fragmented by generic programs that fail to address strategic issues such as low productivity, control the expansion of plantations or acknowledge the necessity of community empowerment. The budget for the plantation sector averages 0.8% against total regional expenditure. Nonetheless, growth in the plantation sector's expenditure has increased significantly to 81 per cent from Rp 8.2 billion in 2010, to Rp 15.0 billion in 2012.

**Graph 2. Average Distribution of the Plantation Sector's Expenditure (2010-2012)**



The programs that received the largest allocations were; improving plantation production (46 per cent), and the combination of personnel expenditure and administration (45 per cent). Based on an in-depth study of the 2012 budget, it was found that programs which aim to increase plantation production were only being used for three purposes; the procurement of means of production (27 per cent using Special Allocation Funds), seed procurement (17 per cent) and the development of an information database (4 per cent).

<sup>3</sup> Policy Direction and Strategy Development for Plantations 2010-2014, as reported by the Director General of Plantations, Ministry of Agriculture of the Republic of Indonesia on 3 June 2013 on the following website: [www.ditjenbun.pertanian.go.id](http://www.ditjenbun.pertanian.go.id).

<sup>4</sup> Strategy Development for Plantations involves (i) increasing production, productivity and the quality of sustainable plantations; (ii) commodity development; (iii) increasing support for food security systems; (iv) business investment strategies; (v) development of information systems; (vi) development of institutions and business partnerships; and (viii) support for natural resource and environmental management.

These three activities don't directly contribute, however, towards increasing the productivity and quality of plantations. Rather, the activities that should be prioritised are the development of commodities, the development of better natural resource management methods, the development of institutions and partnerships, as well as the development of better business investments (as outlined in the central government's technical policies).

### **Recommendations**

1. The Regional Head and DPRD should be expected to do a review of RPJMD, in order to internalise the plantation sector as the region's economic backbone.
2. The Plantation Department needs to redesign its Strategic Plan to refer to policy direction and strategy development.
3. The Plantation Department needs to ensure more effective budget allocations in the RKA SKPD in terms of commodity development, better natural resource management methods, and the development of institutions, partnerships, and business investments, so that it may directly influence and increase the production and quality of plantations.