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# THE EFFECT OF AGRICULTURAL CREDIT ON THE WELFARE OF OIL PALM FARMERS IN LABUHAN BATU UTARA DISTRICT

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## ABSTRACT

The national economy seeks to improve the welfare of the people, which is supported by the agricultural sector. The role of the agricultural sector will be more optimal if it is supported by an integrated, sustainable planning system, and balanced with the provision of an adequate budget in the form of capital. Capital problems are the main problem faced by farmers, although many farmers have the ability to increase their agricultural output if they do not have adequate capital, then these farmers will not be able to develop their agriculture. So to overcome the lack of capital, farmers will apply for credit loans to financial institutions, both formal and informal. However, the development of credit is currently increasing, especially credit for the agricultural sector which is programmed by the government to improve the rural economy which is an agricultural area. Agricultural credit has a very important role in developing agricultural development to obtain greater production results. If production increases, the income of farmers will also increase for the welfare of the farmer. Therefore, researchers have conducted research by using the research method of distributing 30 questionnaires to oil palm farmers in North Labuhanbatu Regency. The research variables are own capital (X1), credit capital (X2), and land area (X3) using multiple linear regression analysis. Based on the results of the analysis, it can be concluded that the application of agricultural credit in North Labuhanbatu Regency has been applied well but not fully for the management of oil palm agriculture.

**Keywords : Agricultural Credit, Income, Welfare**

## INTRODUCTION

The structure of the Indonesian economy, which is an agrarian country, cannot be separated from the agricultural sector, where the relationship between the agricultural sector and national development is basically a reciprocal relationship. National development aims to improve the quality of life of the community.

Agriculture was one of the important sectors in development in Indonesia until then. Even though Indonesia is an agricultural country, most of the farmers are small farmers. Farmers belonging to this group usually only have agricultural land obtained from their farming business which cannot meet their daily needs. Indonesia as an agrarian country, then economic development and agriculture-based industry is the right choice because of the availability of abundant natural resources, abundant human resources, and ingrained farming traditions which naturally have consequences for building adequate infrastructure, technology and industry that appropriate use and competitive marketing of agricultural products.

In the context of agricultural development, the government is active in increasing agricultural development in Indonesia, especially in North Sumatra with 3 development programs, namely: (1) Agricultural development aims to develop agribusiness that is able to produce competitive agricultural products, (2). Increasing food security to increase

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production diversity, availability of food crops, distribution, ensuring the availability of food and good nutrition for the community, and (3). Improving farmers' welfare The goal of development is not only to increase income. Efforts to increase income are very important but do not run alone. It is necessary to include changes in various aspects of people's lives, for example development that eliminates inequality, reduces inequality, and eliminates poverty of farmers in particular. Indonesia is a tropical country and rich in types of crops and fruits. Indonesia's climate allows for the growth of various types of crops and fruits.

One of the agricultural products that can increase its added value is oil palm. In the Indonesian economy, palm oil (in terms of oil) has a strategic role because:
Palm oil is the main raw material for cooking oil, so a continuous supply helps maintain the price stability of the cooking oil. This is important because cooking oil is one of the 9 basic needs of the community so the price must be affordable by all levels of society.

The pioneer of the oil palm plantation business in Indonesia was Adrien Hallet (a Belgian), then his cultivation was followed by K.Schadt which marked the birth of oil palm plantations in Indonesia began to develop. The first oil palm plantations were located on the South East Coast (Deli) and Aceh with The plantation area is 5,123 Ha. Plantation development is directed at creating job opportunities, improving people's welfare and the foreign exchange-producing sector. The government continues to encourage the opening of new land for plantations. Until 1980, the land area reached 294,560 hectares with a production of CPO ( *Crude Palm Oil* ) of 721,172 tons. Since then, Indonesia's oil palm plantations have grown rapidly, especially community plantations, one of which is North Labuhanbatu Regency. .
North Labuhanbatu Regency is one of the plantation centers in North Sumatra. An important commodity produced by plantations in North Labuhanbatu Regency is oil palm. Oil palm production (people's plantations) in 2010 was 819,363 tons with a total planted area of 63,061 ha. The largest oil palm producing sub-districts are Aek Natas, Kualuh Hulu and Aek Kuo sub-districts where the contribution of the three sub-districts for oil palm production is 22.97%, 17.08%, and 16.19%, respectively.

From the problems above, the author is interested in discussing this problem in a journal in the form of a paper with the title: " The Effect of Agricultural Credit on the Welfare of Oil Palm Farmers in North Labuhanbatu Regency".

## LITERATURE REVIEW

The agricultural sector is an active sector where agricultural development is driven in terms of the production function through research on agricultural development, development of social and economic infrastructure in a fairly large investment. The above phenomenon is an illustration of how strategic the role of the agricultural sector in national development is. The role of the agricultural sector will certainly be more optimal if it is supported by an integrated, sustainable planning system and balanced with the provision of an adequate budget. To strengthen the agricultural sector, the availability of capital for agricultural business actors is a must.

Capital are goods and services which together with the factors of production of land and labor produce new goods. Agricultural goods which include capital goods can be in the form of money, land, fertilizer, investment in machinery, and others. Usually, the larger and better the quality of the capital owned, the more it will support the increase in the resulting production. So it is clear that capital is the main factor to determine the direction of managed agricultural development.

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*credit* , which is capital from outside parties or financial institutions. Thus, capital can be divided into two, namely equity *capital* and loan capital . In the production process there is no difference between own capital and borrowed capital, each contributing directly to production. The difference is in the interest that must be paid to creditors.

According to Kasmir ( 2008: 96) from the above understanding it can be explained that credit or financing can be in the form of money or bills whose value is measured by money, for example, banks finance loans for buying houses or cars. Then there is an agreement between the bank ( *creditor* ) and the credit recipient customer ( *debtor* ), that they agree in accordance with the agreement that has been made. The credit agreement includes the rights and obligations of each tax. There is a problem with sanctions if the debtor breaks his promise to the agreement that has been made together.

According to Kasmir ( 2008: 97), in a broad sense credit is defined as trust. Likewise, in Latin credit means " *credere* " which means to believe. The meaning of trust for the lender is that he believes in the recipient of the credit that the credit he has disbursed will be returned according to the agreement. As for the recipient of the credit, it is an acceptance of trust so that it has an obligation to pay according to the time period.

Efforts made by the government in helping the capital of rural communities have actually been carried out for a long time, even since the Dutch colonial period. It seems that the problem of capital has become a classic phenomenon in the development process. Although not specifically for farming communities, at that time credit services for rural communities had been pioneered with the establishment of Village Banks and Village Barns. After independence, the government tried to provide special capital assistance to farmers in the form of program credit. As the name implies, this credit assistance is given to support certain implementations or projects. time and approach to indicators of the level of success of the program.

The development of government credit programs for the agricultural sector cannot be separated from agricultural intensification programs and rural economic improvement programs. This agricultural credit deserves special attention. Peeling agricultural credit should actually cover aspects in terms of people's lives, very limited farming habits, what is needed, and so on. This credit includes productive loans that produce goods in the form of food, especially basic necessities for the population.

## METHODOLOGY

This chapter will explain the procedures and steps to be taken in collecting data or information and processing data to solve problems.

This research was conducted in North Labuhanbatu Regency by observing the largest palm oil producing areas, namely Aek Natas District, Merbau District and Aek Kuo District where the contribution of the three sub-districts respectively for oil palm production was 188,237/ton/year, 123,458/ton/year. year, and 132,657/ton/year.

The population is the entire research subject. The population in this study are all oil palm farmers who receive agricultural credit based on the area of their agricultural land in North Labuhanbatu. The sample is part of the population used to represent the study. The sample size is based on the analysis that will be used to test the hypothesis.

sampling technique using the *accidental sampling* technique is a sampling technique based on chance, that is, anyone who meets by chance with the researcher can be used as a sample, if it is deemed that the person who happened to be met is suitable as a data source. According to Arikunto (1999 ; 107 ), "if the population is less than 100 then all will be

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samples. If the population is more than 100 it will be taken 5% - 10% or 20% - 25% of the total population. Because the population is too large and the authors have limited time, funds, and energy, the sample in this study was deliberately determined, namely 30 respondents from all oil palm farmers who use credit for their agriculture.

The types of data needed in this study are primary and secondary data types. Primary data obtained from the results of empirical research through the distribution of questionnaires to 30 respondents, namely farmers who received credit to cultivate their agricultural land in North Labuhanbatu Regency, while secondary data was data obtained from the study. literature, books, economic journals, and the Central Bureau of Statistics of North Labuhanbatu in 2011-2012 figures. The data collection method used is a questionnaire, which is one technique of collecting data and information by distributing questionnaires (lists of questions) to respondents who are used as research samples.

Understanding the questionnaire method according to Arikunto (2006:151) "Questionnaire is a written statement that is used to obtain information from respondents in terms of personal reports or things that he knows". Meanwhile, according to Sugiyono (2008: 199) "Questionnaire or questionnaire is a data collection technique that is done by giving a set of questions or written statements to respondents to answer".

**Data Analysis Technique**

The analysis technique was carried out based on primary data obtained directly from distributing questionnaires to oil palm farmers who received agricultural credit loans in North Labuhanbatu Regency, namely the first data was processed in Ms. Excel for the respondent's results journal and further analysis of the data in detail and totality, where the data is processed using the SPSS ( *Statistics Product Service Solution* ) computer program version 15 to process the data in writing this journal.

Multiple linear regression analysis method serves to determine the effect or relationship of the independent variable with the dependent variable. Y value can be obtained by the formula:

$Y = + \ {}_1X_1 + {}_2X_2 + {}_3X_3 +$

where :

| | |
|---|---|
| Y | = Level of income or level of welfare of oil palm farmers |
| α | = Constant (a number whose value is fixed) |
| $X_1$ | = Own Capital *(equity capital)* |
| X2 | = Agricultural Credit Loans *(credit)* |
| $X_3$ | = Land area (Ha) |
| 123 | = Regression coefficient |
| ε | = Estimator error |

**RESEARCH RESULTS AND DISCUSSION**

With the questionnaire that has been distributed by the author, the answers from respondents can provide information on the condition of oil palm farmers in North Labuhanbatu Regency as follows:

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### 4.1. The Relationship Between Respondent's Age With Farming Length

**Table 1**
**The Relationship Between Respondent's Age With Farming Length**

| Age (Years) | Length of Farming (Years) | | | | |
|---|---|---|---|---|---|
| | 0 – 6 | 7 – 12 | 13 – 18 | 19 – 28 | Amount Respondent |
| 20 – 30 | 1 | 0 | 0 | 0 | 1 |
| 31 – 40 | 3 | 3 | 1 | 0 | 7 |
| 41 – 50 | 6 | 3 | 1 | 0 | 10 |
| 51 – 60 | 3 | 6 | 2 | 0 | 11 |
| 61 – 75 | 0 | 0 | 0 | 1 | 1 |
| **Amount Respondent** | **13** | **12** | **4** | **1** | **30** |

Source: Processed Primary Data

Table 1 shows that most respondents are between the ages of 51-60 years with a length of farming between 7-12 years, then between the ages of 41-50 years with a length of farming between 0-6 years, then between the ages of 31-40 years with a length of farming between 0-6 years, then the least respondent is between the ages of 61-75 years with a length of farming between 19-28 years only 1 respondent but this 1 respondent is the longest farming of 30 respondents.

### 4.2. The Relationship Between Land Area and Production Results

**Table 2**
**The Relationship Between Land Area With Production Results**

| Land Area (Ha) | Production Yield (Tons) /month | | | | Amount Respondent |
|---|---|---|---|---|---|
| | 0 – 5 | 6 -10 | 11 – 30 | 21 – 30 | |
| 1– 6 | 11 | 2 | 0 | 0 | **13** |
| 7 – 13 | 3 | 4 | 3 | 0 | **10** |
| 14 – 19 | 0 | 2 | 1 | 0 | **3** |
| 20 – 26 | 1 | 0 | 1 | 1 | **3** |
| 27 – 40 | 0 | 0 | 0 | 1 | **1** |
| **Number of Respondents** | **15** | **8** | **5** | **2** | **30** |

Source: Processed Primary Data

From table 2 above, it can be seen that of the 30 respondents who have the largest land area, only 1 respondent with production is at a frequency of 21-30 tons per month. Based on the results of the respondents in the table, it is also explained that more respondents

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get oil palm production between 0-5 tons/month there are 15 respondents with a land area of 1-6 Ha there are 13 respondents. It can be concluded that out of 30 respondents, there is still more land area between 1 – 6 Ha, which are respondents who get credit loans and their production results are also between 0-5 tons/month .

### 4.3. The Relationship Between Other Businesses and the Necessities of Life

**Table .3**
**The Relationship Between Other Businesses And The Necessities Of Life**

| **Other Business** | **Life necessities** | | | | | **Amount Respondent** |
|---|---|---|---|---|---|---|
| | Very Sufficient | Sufficient | Enough | Not enough | Very Not enough | |
| There isn't any | 1 | 0 | 6 | 1 | 0 | 8 |
| Rice Farming | 2 | 1 | 6 | 3 | 1 | 13 |
| Wholesaler/ Shop | 0 | 0 | 4 | 0 | 0 | 4 |
| Other | 0 | 1 | 4 | 0 | 0 | 5 |
| **Amount Respondent** | **3** | **2** | **20** | **4** | **1** | **30** |

**Source: Processed Primary Data**

Table 3 shows that the relationship between other businesses and the necessities of life of the respondents can be seen that more of their daily needs are sufficient and have other businesses besides oil palm farming, while the needs of their lives are still lacking in 5 respondents even though they already have oil palm land. This is due to the use of credit loans that have not been fully utilized for the management of the respondent's oil palm land.

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### 4.4. Relationship Percentage of Credit Usage

**Table 4**
**Relationship Between Percentage of Credit Use and Other Uses of Credit**

| Percentage Use credit for farming | Other Uses of Credit | | | Amount Respondent |
|---|---|---|---|---|
| | <10% other or there isn't any | Needs House Ladder (10% - 40%) | Children's School (10% - 30%) | |
| 100% | 3 | 0 | 1 | **4** |
| 80% - 99% | 0 | 3 | 1 | **4** |
| 60% - 79% | 1 | 6 | 2 | **9** |
| 40% - 59% | 0 | 1 | 4 | **5** |
| <40% | 0 | 6 | 2 | **8** |
| **Amount Respondent** | **4** | **16** | **10** | **30** |

Based on table 4, it can be seen that the use of credit for farming is more in the percentage of 60% - 79% there are 9 respondents with other uses of credit more for household needs 10% - 40% of the credit received by respondents, then the percentage of use credit for farming is below 40% there are 8 respondents with other uses for children's school 10% - 40% of the credit received by respondents. While the respondents who are at least in the percentage of 100% credit use for farming are only 4 respondents.

### 4.5. The Relationship Between Obtaining Credit With Barriers

**Table 5**
**The Relationship Between Obtaining Credit With Barriers To Obtaining Credit**

| Acquisition Credit | Obstacle | | | | Amount Respondent |
|---|---|---|---|---|---|
| | Collateral | Long Time | Condition Supporter Credit | Affairs rambling | |
| Difficult | 0 | 2 | 3 | 6 | **11** |
| Normal | 0 | 2 | 5 | 5 | **12** |
| Easy | 2 | 4 | 0 | 0 | **8** |
| Very easy | 0 | 0 | 1 | 0 | **1** |
| **Amount Respondent** | **2** | **8** | **9** | **11** | **30** |

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Based on Table 5, it can be seen that the relationship between obtaining credit and barriers to obtaining credit has a significant relationship. This means that respondents who stated that obtaining credit was ordinary and difficult because they encountered obstacles in terms of long-winded affairs and credit support conditions. The main obstacle to obtaining credit was long-winded affairs. things that often happen in credit applications that spend time in processing applications.

### 4.6. Relationship of Credit Use with Changes in Income

**Table .6**
**The Relationship Between Percentage of Credit Use and Changes in Income**

| % credit usage for farming | Income Change | | | Amount Respondent |
|---|---|---|---|---|
| | Become Higher | Permanent The same | Still Not enough | |
| 100% | 4 | 0 | 0 | **4** |
| 80% - 99% | 4 | 0 | 0 | **4** |
| 60% - 79% | 5 | 4 | 0 | **9** |
| 40% - 59% | 5 | 0 | 0 | **5** |
| < 40% | 7 | 1 | 0 | **8** |
| **Number of Respondents** | **25** | **5** | **0** | **30** |

**Source: Processed Primary Data**

Based on table 6, the relationship between the percentage of credit use and changes in income can be seen from 30 respondents, namely income that is higher than before using credit loans 60% - 79% and below 40% for oil palm farming compared to 100% credit use. for oil palm farming. While the change in income that still persists even though the respondents have obtained credit, this is because they are still in the stage of starting to cultivate their land and also other uses of the credit.
So it can be concluded that the relationship between the percentage of use of credit loans has a significant relationship with changes in income. This is because the use of credit loans is not entirely for oil palm farming, because most of the credit loans are used for other businesses by the respondent.

## CONCLUSION

From the results of the calculation of the regression coefficient of own capital has a positive effect on changes in income levels, but not significant. This is because the farmers' own capital is only in the form of plantation land while good seeds, fertilizers, and pesticides are financed by most of the agricultural credit loans or it can be said that the higher the own capital, the higher the level of income that the oil palm farmers will get. without borrowing from the bank.

From the results of the calculation of the regression coefficient of agricultural credit loans ($X_2$) 2,231 that the magnitude of the influence of the independent variable $X_2$

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(agricultural credit loans) on changes in the income level of oil palm farmers has a positive effect or it can be said that the higher agricultural credit loans, the more opportunities to develop businesses. the oil palm farmers' farms.

From the results of the calculation of the regression coefficient of land area ($X_3$) 0.448 that the magnitude of the influence of the independent variable $X_3$ (land area) on changes in the income level of oil palm farmers has a positive effect or it can be said that the wider the agricultural land area, the greater the opportunity for oil palm farmers to develop their efforts and the greater the production results obtained from the wider land area. However, if the land management is not optimal , it will causes changes in income to decrease or remain unchanged, for example oil palm is attacked by pests, it will reduce production yields.

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