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## The Role of middleman in Supporting the Performance of Community Oil Palm Smallholders: A Case Study in North Sumatra, Indonesia

### Abstract

Oil palm agribusiness involves many stakeholders from upstream to downstream, one of which is middleman in marketing activities. Traders play a major role and influence the economy of oil palm farmers in Serdang Bedagai District. This research aims to evaluate the role of middleman in supporting the performance of smallholder oil palm smallholders in Serdang Bedagai District, North Sumatra and the obstacles in marketing Fresh Fruit Bunches (FFB) faced by farmers and middlemen. In this study, the samples were 6 middleman and 40 oil palm farmers. The method used in this sampling is purposive sampling. The method used in the analysis is a qualitative descriptive method, which explains the role of intermediaries in supporting the performance of smallholder oil palm farmers. The results showed that marketing support, capital, and quality were the important roles of middleman perceived by the smallholders. Apart from that, in marketing smallholder oil palm plantations, there are obstacles, namely in terms of price, road access and weighing. Meanwhile, the barriers for middlemen are in terms of price and buying and selling contracts. Policy recommendations for stakeholders include providing education through counseling to smallholder oil palm growers regarding access to information, improving access to the main roads in Serdang Bedagai District, periodic monitoring by the local government, and making a written or legal sale and purchase contract so as not to harm both parties.

**Keywords:** industrial plantation; middleman; palm oil; smallholders

### INTRODUCTION

Oil palm is one of the plantation crops exported by Indonesia (Arsyad et al., 2020). Based on FAO data (2023), in 2020 Indonesia will be the largest exporter of palm oil in the world, followed by Malaysia and Thailand. Palm oil can be processed into vegetable oil and has ingredients that are beneficial to health. Mustard coconut oil contains a lot of vitamin E which acts as a natural antioxidant (Boateng et al., 2016). Crude palm oil is the cheapest source of  $\beta$ -carotene among all vegetable oils, so it can be used as a source of provitamin A. Palm oil can be used as an alternative natural food that is affordable and easily available to the public (Perdani et al., 2016). Based on this, the quality of oil palm needs to be maintained starting from cultivation, post-harvest handling, to marketing. Poor quality of palm oil can affect its content which can have an impact on public health.

Oil palm agribusiness involves many stakeholders from upstream to downstream to distribute palm oil yields to the community. Palm oil needs to be processed first into derivative products such as palm oil. In post-harvest activities, farmers cannot be separated from marketing activities which are very important to get profits and so that the business can develop. The marketing of Fresh Fruit Bunches

(FFB) from oil palm involves the transfer of ownership of the flow of goods by a marketing agency that performs one or more processes of the marketing function (Lifianthi et al., 2022). Marketing activities involve several economic actors or marketing institutions that assist farmers in distributing their products. The functions carried out by the marketing agency are the exchange function, the physical provision function and the facility function (Husnarti, 2017). Oil palm agribusiness requires stakeholder support to improve its sustainability status (Suardi et al., 2022).

The majority of the profession of the people of Serdang Bedagai Regency are smallholder oil palm farmers with an average land area of less than three hectares with small yields. This causes the smallholders to not be able to sell their produce directly to the Mill ). Therefore, a marketing agency is needed as an intermediary that helps smallholders to be able to sell their products. One of the marketing institutions in oil palm agribusiness is middleman. A collector trader is an entity or individual who collects forestry, plantation, agricultural and fishery products, then sells them to industrial business entities and/or exporters or can also sell them to the public (Gunapadmi et al., 2020). The existence of middleman as marketing agents is considered important by farmers (Abebe et al., 2016) because middleman really help farmers in marketing agricultural products besides middleman also lend capital to farmers (Lisarini & Adillah, 2020; Romawati et al., 2017). In addition, middleman also have an extensive social network, where farmers do not necessarily have it (Azizah, 2016). The network owned by these middleman helps farmers in the agricultural marketing process and can be a source of information for farmers (Chigusiwa et al., 2013). Sudrajat et al., (2021) also stated the positive role of middleman, namely facilitating the sale of agricultural products, lenders of agricultural inputs, and cash loans. Based on these results the role of middlemen also has a positive side, not always negative. Middlemen are often stereotyped that middlemen always suppress prices for farmers.

The existence of palm oil middleman plays a very important role for smallholder oil palm planters because apart from being intermediaries they are also providers of transportation, providers of capital, providers of infrastructure facilities in the form of storage and sorting, and providers of market information to make it easier for farmers to sell their crops to warehouses (Tampubolon et al., 2021; Ismail et al., 2020; Abebe et al., 2016). Research on the role of collectors in palm oil commodities in maintaining the quality of palm oil has not been carried out much. So far, several studies have only discussed palm oil marketing (Kana et al., 2022; Sumartono et al., 2018; Authar, 2018). Research on the role of middleman has been carried out on food (Lisarini & Adillah, 2020); and horticultural crops (Idris et al., 2022; Sudrajat et al., 2021; Gunapadmi et al., 2020). In contrast to this research which examines the role of middleman in plantation crops, especially oil palm. This research can complement previous research, namely focusing on the role of collectors in maintaining the quality of palm oil so that the palm oil produced has optimal health benefits for consumers.

Middleman played a major role and influenced the economy of oil palm farmers in Serdang Bedagai District. In addition, middlemen also play a role in influencing the quality level of palm oil in terms of loading and unloading processes, distribution and storage times. This study aims to determine



the role of middleman in supporting the performance of smallholder oil palm smallholders in Serdang Bedagai District, North Sumatra and the obstacles in marketing FFB faced by farmers and middlemen in distributing oil palm.

## MATERIALS AND METHODS

Qualitative descriptive method used in this study to provide an overview of the object under study. This research was conducted in Serdang Bedagai District, North Sumatra Province of Indonesia. The method used in this sampling is purposive sampling. In this study, the samples were 6 middleman and 40 oil palm farmers. The sample was selected based on information from the management of farmer groups and palm oil mills.

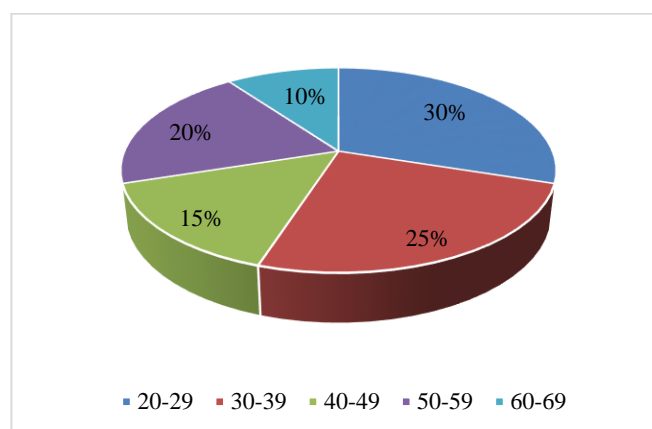
Primary data is taken through observation of subjects, events or test results regarding the role of oil palm middleman and smallholders. The primary data includes the identity of respondents, production costs, land area, number of farmers, selling prices at the farmer level, support from middleman in improving the performance of oil palm smallholders. The analysis method used in this research is descriptive analysis.

## RESULTS AND DISCUSSION

### Characteristics of Farmers

#### Farmer's Age

The majority of farmers in Serdang Bedagai District are of productive age, namely 21-62 years. Based on BPS-Statistics Indonesia of productive age in the age range of 15-64 years. One of the factors that can influence the way farmers manage their farming is age. This is because at productive age, physical strength is still good and optimal in managing farming. However, older farmers usually have more management experience, while younger farmers have less farming experience so training is needed to broaden and improve their knowledge of proper oil palm cultivation techniques, including the use of quality seeds (Jafar et al., 2022).

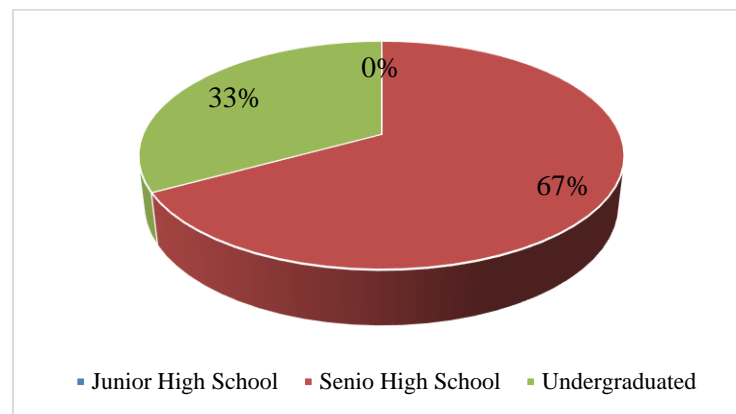


Pictures 1. Characteristics of Farmers by Age

Farmers who are of productive age are usually more progressive towards innovation and technology, especially for farmers who are around 20 and 30 years old. According to (Arvianti et al., 2022) compared to old farmers, productive age farmers make bolder decisions when developing their agricultural businesses and have long-term planning. Apart from age, education also influences the productivity of smallholders in farming.

### Farmer Education

Education is important for every individual, including middleman and gardeners. The majority of gardeners in Serdang Bedagai District are senior high school students. The level of education can affect a person in making decisions. In addition, in agricultural development the role of education is very important because it is one of the facilitating conditions that can increase farmer productivity (Edwina & Maharani, 2017).



Pictures 2. Characteristics of Smallholders by Education

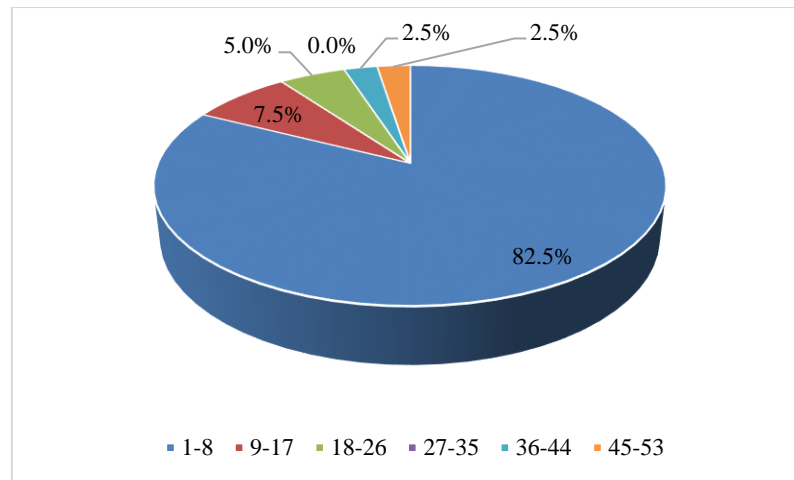
Oil palm farmers who have higher education will find it easier to adopt new technologies in accordance with the principles of good agricultural practices. Technology application starts from the process of harvesting, loading, and transporting it to the Palm Oil Mill. These activities are interrelated because each contributes to determining the quality of fresh fruit bunches. So that the quality of the FFB will be good. FFB quality parameter observed was Free Fatty Acid (FFA) content.

### Farmer Land Area

5

5

2



Pictures 3. Area of ownership of land for oil palm plantations in ha

The average land area of the Serdang Bedagai community's oil palm smallholders ranges from 1-8 hectares. This is because the majority of farmers are transmigration people who get 2 hectares of land for each head of the family. Only a small portion has an area of more than 8 hectares. The wider the land owned, the smallholders will look for convenience in managing the area of their farming so that the area of farming is very influential on decision making in oil palm rejuvenation (Lesmana et al., 2022).

### Marketing Support

The majority of the people of Serdang Bedagai Regency are smallholder oil palm smallholders whose produce is in the form of Fresh Fruit Bunches (FFB). The performance of oil palm growers is seen from the quality, quantity and effectiveness of oil palm cultivation with the principles of good cultivation practices (Ambarsari et al., 2022). so that it can affect the results of FFB. The FFB produced by the smallholders cannot be sold directly to the mills but must be through intermediate traders. Intermediate traders here are middlemen. So that middleman has a role in supporting FFB marketing activities in the Serdang Bedagai Regency.

The middleman consists of a small middleman (Resellers) and large middleman (Warehouses). Small middlemen have a marketing area limited to each village, while large middlemen have a larger area, which can consist of several villages or an entire sub-district. Pictures 4 is the FFB marketing chain of smallholder oil palm growers.



Pictures 4. Marketing chain of oil palm FFB in Serdang Bedagai District

From Pictures 4 it can be seen that the FFB marketing chain starts from the smallholders as FFB producers, selling to middlemen. The FFB purchasing system is carried out by middlemen to farmers based on price agreements. Farmers as price takers can only give approval regarding the price offered by the middleman. Price agreement is made after farmers confirm sales to the middleman the day before harvest. So that after harvest, FFB can be transported directly to the next marketing chain.

The middleman as middleman and intermediary traders are tasked with picking up the FFB to the farmer's yield collection point (TPH) for the transportation process. From the results of this study, there were several obstacles that occurred in the transportation process, namely the TPH planters could not be accessed by trucks, which required the farmers to move the FFB to a place that could be accessed by middleman' trucks. The maturity level of FFB determines the price of FFB. FFB weighing and sorting are carried out before the transportation process. middlemen sell to Warehouses which are FFB storage areas. FFB from the Warehouse is sold to the palm oil factory (PKS) as the final consumer.

In this case, it can be explained by the existence of middlemen and warehouses that are very helpful for farmers in marketing. Because FFB marketing requires adequate transportation. In addition, only institutions that have contracts or cooperation with PKS can sell FFB to PKS. So that for smallholder oil palm planters it is greatly helped by the presence of middlemen such as middleman and warehouses.

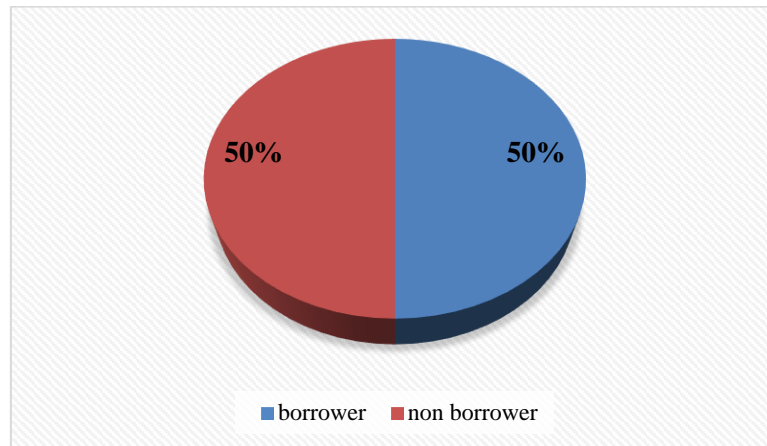
The purchase price of FFB from middleman to farmers is also changing according to the FFB price provisions informed by the warehouse. The FFB price determined by the warehouse will then be considered by the middleman in determining the purchase price of FFB to smallholders. The selling price of FFB from smallholders to middlemen is lower than the selling price for middlemen to warehouses. This happens due to marketing margin taken by middlemen in the marketing chain. Collector's margin is Rp. 100 to Rp. 150 per kilogram of FFB.

From the results of this study it can be seen that the farther the distance for transporting FFB to the warehouse, the greater the costs incurred by middleman, if the distance for transporting FFB to the warehouse tends to be closer, the costs incurred by middleman will be smaller. From the results of this study it can also be seen that the sales function for all middleman in selling FFB to palm oil warehouses is not to PKS, because PKS has specific standards regarding the amount of FFB tonnage that must be deposited per day and also the distance to the warehouse is closer than the distance to the PKS so that can reduce costs incurred.

### Capital Support

Provision of loan capital to farmers is carried out by middlemen as a form of good cooperation. Loan capital is provided after an agreement has been made between middleman and planters. The capital provided is in the form of cash, fertilizer and/or seeds according to the needs of the planters.

Loan agreements occur only orally on the basis of trust. If a farmer borrows capital from a collector, the farmer must sell FFB to the collector. The administration that assists in calculating loans is only a receipt for the results of the weighing, which is given at each weighing.



Pictures 5. Percentage of smallholder oil palm smallholders who borrow cash from middleman in Serdang Bedagai District

Some 50% of smallholder oil palm farmers in Serdang Bedagai District borrow capital from middlemen and the rest use their own capital for farming. Farmers prefer to borrow from the middleman because there is no interest. Farmers prefer to receive loans in cash and without calculating interest rates because farmers tend to be very risk averse (Sudrajat et al., 2021). The average farmer borrows IDR 4,000,000 per loan. The highest farmer loans reach IDR 12,000,000. The majority of farmers borrow capital to meet living expenses and additional capital for oil palm cultivation.

Loan capital repayments are made by deducting the proceeds from the sale of FFB by the planters at each weighing with a minimum deduction of IDR 150,000. Another consideration is that if the price of FFB is dropping, don't cut it as installments. The repayment of the capital loan has no timeframe for repayment but only an agreement that the planters must sell FFB to the middleman as long as the farmer still has debt. The amount of loans that can be made by smallholders to the middleman is adjusted to the ownership of the land area. This is because the area of land will affect the size of the productivity obtained. Productivity has a direct relationship with income. The amount of income is a consideration for the middleman in providing capital loans. Because the income can be measured by the ability of smallholders related to the principle of capacity.

## Quality Support

1 FFB is at its optimum ripeness once loose fruits start detaching from the fully formed bunch on the oil palm. At this point, free fatty acids (FFA) also start setting in when bruising of bunches occurs during the process of harvesting and transporting. FFA is detrimental to the yield and final quality of the CPO created at the mill. This is the main reason why the harvested FFBs have to be delivered to the

mill for processing within 24 hours. The faster the fruit is crushed, the less FFA is formed, the better the yield and quality of CPO.

The characteristic of a product or service that affects its ability to satisfy stated or implied needs is called quality. In this case the role of middleman in supporting the quality of palm oil is related to sorting, weighing and transportation. Sorting oil palm fruit or often referred to as grading, is the process of separating oil palm fruits and providing fruit classification based on predetermined criteria with a grading scale. These criteria include unripe fruit, overripe fruit, rotten fruit and others. From the results of the study it was found that middlemen do sorting related to the level of ripeness, because there are still many gardeners who harvest unripe fruit. By sorting it will provide education to the smallholder oil palm planters that if there is unripe fruit it will be removed from the scales. So that it can change the habits of smallholder oil palm farmers in harvesting. It is hoped that in this way the planters will maintain the quality of palm oil production.

The weighing of the fruit is not carried out in the oil palm plantation owned by the farmer, but the weighing is carried out at the collection point for the oil palm fruit belonging to the collector. Weighing is done after the sorting activity is complete. The openness of the weighing process will build farmers' trust in the marketing and pricing process. Appropriate prices will maintain the quality of palm oil production produced by smallholders.

Transportation is the most important aspect in the marketing process, without a transportation process the FFB cannot be distributed to consumers (PKS). Transportation determines the quality of palm oil because delays in delivery will increase free fatty acids (ALB). The role of middleman in supporting the quality of palm oil is to help smallholders to immediately move it from the result collection point by hastily transporting it to the palm oil mill.

Differences in the type of conveyance and the position of the FFB layer will affect the difference in the free fatty acid (FFA) content of FFB. FFA levels will be higher if the fruit is not immediately transported to the factory to be processed (Krisdiarto et al., 2017). Several factors can cause a relatively high increase in FFA levels in palm oil, including harvesting the fruit that is not on time, delays in collecting and transporting the fruit, stacking the fruit for too long, the hydrolysis process while at the factory. The high concentration of FFA in palm oil is very detrimental. This high FFA causes the yield of oil to decrease so that the quality of the oil decreases. If the FFA content in CPO increases beyond the predetermined quality standards, the CPO cannot be sold (Dwi Hastuti et al., 2015). This causes losses to CPO producing companies. In this case the role of middleman is to maintain the quality of the oil produced from the FFB that is sent.

The existence of a middleman is useful for ensuring the quantity and quality of commodities, reducing costs for measuring quality or sorting, and increasing commercialization due to the low resources of smallholders. Although in several research findings it is stated that the presence of middleman causes low income of smallholders and creates dependency and exploitation of smallholders, intermediaries are also needed to resolve market imperfections, especially small farmers

15

35

8

2

(Ishak et al., 2018). Traders and farmers are connected socially starting from determining the price and where the FFB will be sold, providing vehicles for transporting FFB, providing up-to-date information on fertilizer prices, and plant maintenance (Ismail et al., 2020).

### Obstacles in FFB Marketing

Oil palm plantations in Serdang Bedagai Regency have existed for a long time and are a hereditary business, even so, in every business there are always obstacles in the process. In this study, the obstacles faced by farmers and middlemen were not too many and were still in a reasonable category, as can be seen in table 1.

Table 1. Barriers to FFB sales

No	Barriers	Farmer	Middleman
1	Price of Palm Oil	✓	✓
2	Road Access	✓	-
3	Palm Oil Weighing	✓	-
4	Purchase contract	-	✓

### Obstacles at Farmer Level

#### 1) Price of FFB

Fluctuating FFB prices are the main obstacle faced by farmers. Price uncertainty at the level is caused by several factors including asymmetric information between palm oil mills and the government, delays in price information being received by farmers. Farmer-level palm oil prices may vary depending on factors such as farmer's location, weather conditions, stock availability, and market demand (Haloho, 2021). In addition, the price is also influenced by the level of supply, if production is abundant, the price will decrease.

#### 2) Access Road

Road access between land and warehouses is also an obstacle for farmers, road conditions are one of the determining factors for the selling price of FFB to collectors, namely the worse the road conditions, the lower the selling price of FFB to collectors. In this case, the government's role is needed in helping improve road access. in the Serdang Bedagai Regency. This is in accordance with the results of research by Haloho (2021) which states that the price of palm oil at the farm level can vary depending on factors such as the location of the farmer, weather conditions, stock availability, and market demand.

#### 3) Weighing of FFB

The FFB weighing process is carried out when the FFB is about to be transported into the truck. The FFB weighing process carried out by weighing employees is often considered by farmers to be inappropriate, so farmers choose to sell FFB to other collectors. From the results of the research, the scale mismatch is because there are people who take advantage of the opportunity to take advantage.

All fresh fruit bunches (FFB) that have been harvested from the plantation are sent directly to the palm oil mill within 24 hours. The FFB weighing process is also a determinant in maintaining the quality of palm oil. The longer the weighing process takes from harvest time, the longer the delivery process to the factory will be delayed. The shorter the time between harvesting and processing at the factory, the less free fatty acid content is formed, resulting in better harvest productivity and CPO quality.

### Obstacles at the Collector Level

#### 1) Price of FFB

The price of FFB is one of the obstacles experienced by middlemen, although the price of FFB does not affect the income of middlemen, prices that often change suddenly greatly hinder the transaction process in the field so that negotiations and disputes often occur between middlemen and farmers in purchasing FFB.

#### 2) Sale Purchase Contract

In the Serdang Bedagai Regency, the sale and purchase of FFB between middlemen and farmers only uses the principle of trust and agreement, there is absolutely no written agreement on paper, both in terms of buying and selling and borrowing capital. In the absence of a clear and written contract, it is clear that it is very detrimental to the middleman, because farmers often sell FFB to other middlemen even though they still have sales agreements with the middleman concerned.

### CONCLUSION

The role of middlemen in providing support to smallholder oil palm planters is in the form of marketing, capital and quality support. Barriers faced by farmers are price, road access, and the weighing process. Meanwhile, middlemen are hampered in terms of price and buying and selling contracts. Policy recommendations that can be made to reduce these obstacles are educating oil palm farmers through counseling related to access to price information by the government. With this program, it is hoped that oil palm smallholders can increase their bargaining power. The government's role is urgently needed in helping to improve main road access in Serdang Bedagai Regency. Periodic monitoring of scales by local governments needs to be done to monitor quality and quantity. A sale and purchase contract is also required in writing or legally so as not to harm both parties.

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