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Rice Farming Profit-Sharing: Policies, Implementation, Weaknesses, and Improvement Efforts

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ABSTRACT

The current practice of profit-sharing in rice farming tends to be unfair and disadvantageous to tenant farmers. This study aims to analyze the policies, implementation, weaknesses, and improvement efforts regarding profit-sharing in rice farming. The researcher employed a qualitative approach with a narrative method. The employed data collection methods comprised interviews, observations, and documentation. Subsequently, the gathered data underwent analysis using Miles and Huberman's model, encompassing data reduction, visualization, and verification/conclusion. Research findings reveal that profit-sharing arrangements between tenant farmers and landowners are frequently communicated orally, remaining privy solely to the involved parties. Tenant farmers bear the entire burden of production costs and the risk of crop failure, leading to disproportionate profit distribution. Additionally, landowners may unilaterally terminate agreements. To address these issues, written profit-sharing agreements are necessary. The allocation of production costs in farming, including the payment of rice farming insurance (AUTP) premiums to mitigate the risk of crop failure, should be clearly and fairly established, ensuring it does not unduly burden any party involved. In addition, profit distribution should align with contributions. Furthermore, termination of the agreements should not be unilateral and must be in coordination with the local government. Therefore, establishing these aspects within Regional Regulations is crucial for ensuring fair and mutually beneficial profit-sharing practices.

Keywords: profit-sharing, rice farming, policies, implementation, improvement efforts.

INTRODUCTION

The absence of agricultural land remains a primary challenge for most farmers in Indonesia. Almost 35.0 percent of Indonesian farmers lack agricultural land. Even for those who do have land, the majority possess plots no larger than 0.50 hectares, categorizing them as small-scale or subsistence farmers (Indonesia's Central Bureau of Statistics, 2018). Data from Indonesia's Central Bureau of Statistics (2018) reveals the distribution of agricultural households (Indonesian: *Rumah Tangga Usaha Pertanian* [RTUP]) based on the size of managed paddy fields. Less than 0.50 hectares account for 75.93 percent of agricultural households, while 0.50-0.99 hectares represent 15.36 percent, 1.00-1.99 hectares encompass 6.55 percent, and 2.00 hectares or more make up 2.16 percent. The concerning trend lies in the significant surge in the absolute count of smallholder farming households during the period spanning 2013 to 2018. In 2013, the recorded number stood at 25.75 million, escalating to 27.22 million by 2018, marking a

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notable 10.95 percent increase over the five-year duration (Indonesia's Central Bureau of Statistics, 2018). These findings underscore a discernible pattern wherein agricultural land ownership among farmers is progressively contracting.

The increasingly limited or even non-existent agricultural land (landlessness in farming) puts farmers in a dilemma and makes their situation less profitable. On one hand, if farmers opt not to farm due to a lack of land or extremely limited space, it means they must be prepared to have no reliable source of income. This is understandable as not all farmers have alternative jobs or businesses outside the agricultural sector. It is noted that 57.14 percent of agricultural households rely solely on income from the agricultural sector (Indonesia's Central Bureau of Statistics, 2018). The contribution of income derived from rice farming to family agriculture stands notably at 48.18 percent (Gapri & Marhawati, 2016). The absence of a dependable income source leads to farmers struggling to consistently meet their families' daily needs.

On the other hand, if farmers choose to continue farming despite not owning any land, it means they must be prepared to cultivate land owned by others. When farmers decide to work on someone else's land (commonly referred to as tenant farmers), the farmer is required to be amenable to sharing the produced yield with the landowner. In reality, the customary practice of profit-sharing between landowners and tenant farmers prevails extensively within rural communities (Arief & Susilo, 2019). This practice embodies a longstanding tradition and cultural legacy, perpetuated across generations.

The profit-sharing cooperation in rice farming has persisted because of the mutual dependency between landowners and tenant farmers. Not all landowners possess the knowledge, physical capacity, or spare time to cultivate their land directly. Therefore, landowners find assistance in tenant farmers' willingness to work on their agricultural land. Landowners believe that engaging in profit-sharing with tenant farmers makes their land more productive and provides additional income. Similarly, tenant farmers feel supported as some of their needs are fulfilled through the profit-sharing arrangement with landowners. Tenant farmers benefit by gaining access to a larger expanse of land and obtaining additional agricultural capital necessary to boost their income during each planting season (Rahayu, 2021; Andrias *et al*., 2017; Mamondol & Sabe, 2016).

The prevailing issue resides in the disproportionate ratio between the population of tenant farmers seeking agricultural land and the limited availability of land provided by landowners. Consequently, it is not uncommon for a singular plot of land to attract multiple tenant farmers within a given period. This circumstance grants landowners the autonomy to select among tenant farmers, often situating themselves in a superior, more authoritative role compared to their tenants. Consequently, the profit-sharing agreements frequently established tend to be inequitable and disadvantageous for the tenant farmers. Typically, the terms of profit-sharing are unilaterally determined by the landowners. Upon setting a profit-sharing arrangement, the tenants are obligated to abide by it. In instances where tenants fail to comply, such as by neglecting their responsibilities, landowners may promptly transfer land-use rights to other tenant farmers.

Landowners, at times, unfairly impose a disproportionately high burden of production financing upon tenant farmers, significantly impacting those with limited capital resources. At the outset of the planting season, tenant

farmers are obligated to amass substantial capital for labor, land preparation services, and the procurement of seeds, fertilizers, and pesticides. To address these financial requirements, tenant farmers may seek access to government-provided low-interest agricultural credit facilities (Jerry & Ngozi, 2019). However, the constrained accessibility to such funding has impeded farmers from enhancing their agricultural productivity (Muharremi & Madani, 2021). Consequently, tenant farmers are compelled to borrow funds from other farmers or intermediaries, often at significantly higher interest rates. This scenario results in potential tenant farmers being burdened with debt due to the inequitable distribution of production costs (Handayani *et al*., 2018; Lubis & Indrawati, 2017).

In addition to the aforementioned challenges, vulnerable tenant farmers commonly face the onerous responsibility of bearing the risk of crop failure. Typically, landowners absolve themselves from shouldering agricultural losses resulting from crop failure, whether attributable to natural calamities (e.g., floods, droughts, landslides) or attacks by plant pests and diseases. Instead, they transfer the entirety of such losses to the tenant farmers. As farmers consistently grapple with farming setbacks, they gradually encounter difficulties in meeting their families' daily needs and in preparing financing for subsequent planting seasons (Primandita *et al*., 2020; Puspitasari *et al*., 2020; Prabowo *et al*., 2021; Kaleka *et al*., 2020; Suharyanto *et al*., 2015).

The losses and hardships of unjust profit-sharing arrangements on tenant farmers manifest in challenges that inadvertently affect landowners as well. Tenant farmers, constrained by difficulties in accessing farming capital, tend to engage in minimal planting preparations. Consequently, they resort to planting lower-quality seeds due to the high cost of certified superior seeds. Moreover, the utilization of fertilizers may be incomplete, with suboptimal dosages that deviate from recommended standards. In some instances, certain crops might remain unfertilized due to financial constraints hindering purchases from retail stores. Furthermore, pest and disease control measures might be neglected, even when crops are impacted, owing to insufficient funds for acquiring pesticides. Consequently, the resultant produce exhibits diminished quality and quantity, thereby diminishing its market value. This scenario engenders an ineffectual distribution of profits between landowners and tenant farmers, failing to meet the expectations of both parties. On a broader scale, the diminished agricultural output stemming from these unjust profit-sharing arrangements fundamentally jeopardizes national food security and the country's economy (Puspitasari *et al*., 2020).

Indeed, governmental involvement is imperative in overseeing profit-sharing agreements to ensure equitable execution and mutual benefit for both parties (Sutiknjo & Artini, 2020; Priyadi & Shidiqie, 2015; Shidiqie, 2017). The Indonesian government has instituted policies, namely Law No. 2/1960 concerning Profit-Sharing Agreements. This legislation encompasses several pivotal provisions: (1) the structure of profit-sharing agreements, (2) the delineation of rights and obligations for both parties, (3) the mechanism for profit distribution, and (4) the stipulated duration of the agreement.

Law No. 2/1960 has been in effect for an extensive duration. Nevertheless, adherence to its provisions within profit-sharing agreements in rice farming remains incomplete. The majority of agreements between landowners and tenant farmers persist in aligning with local customary practices. These agreements manifest numerous deficiencies, characterized by their non-

documentation (solely verbal consensus), absence of involvement from additional stakeholders in the agreement's determination, ambiguity concerning the responsibility for agricultural production costs and losses attributed to crop failure, and other deficiencies that perpetuate an inequitable and disadvantageous execution of profit-sharing agreements, primarily to the detriment of tenant farmers.

In light of these circumstances, this paper endeavors to achieve the following objectives: (1) to describe profit-sharing policies outlined in Law No. 2/1960 concerning Profit-Sharing Agreements, (2) to analyze the practical implementation of profit-sharing arrangements within communities involving landowners and tenant farmers, (3) to identify inherent shortcomings (weaknesses) prevalent in profit-sharing agreements, and (4) to provide recommendations aimed at refining these agreements, thereby ensuring equitable and mutually advantageous outcomes for both parties.

METHODS

In this study, the researcher employed a qualitative approach with a narrative method. The participants for data sources were selected following a purposive procedure in determining primary and supporting informants. Primary informants comprised landowners and tenant farmers engaged in collaborative agreements for rice farming while supporting informants included local village/sub-district and district government officials.

For data collection, the researcher applied a range of techniques including interviews, observations, and documentation. Subsequently, the gathered data underwent qualitative analysis utilizing Miles and Huberman's model, involving stages of data reduction, data display, and verification/conclusion.

RESULTS AND DISCUSSION

A. Policy Regarding Profit-Sharing in Paddy Farming

Since Indonesia's independence, the government has promulgated a limited number of policies directly associated with profit-sharing in paddy farming. The current policies in force are primarily rooted in Law No. 2/1960 concerning Profit-Sharing Agreements, encompassing several derivative regulations including (1) Presidential Decree No. 13/1980 delineating the Implementation Guidelines of Law No. 2/1960 about Profit-Sharing Agreements and (2) the Joint Decree of the Minister of Home Affairs and the Minister of Agriculture No. 211/1980 and No. 714/KPTS/UM/9/1980 providing Instructions for the Implementation of Presidential Decree No. 13/1980 concerning the Implementation Guidelines of Law No. 2/1960 regarding Profit-Sharing Agreements.

The profit-sharing policy primarily serves as a regulatory framework governing land cultivation agreements structured on profit-sharing modalities. Its principal aim is to establish equitable profit-sharing mechanisms between landowners and tenant farmers, ensuring a legally sound footing for all involved parties by explicitly defining their respective rights and obligations within the profit-sharing agreement. Key provisions encapsulated within this policy encompass (1) the structure of the agreement, (2) the delineation of rights and obligations for landowners and tenant farmers, (3) modalities for profit distribution from land cultivation, and (4) the stipulated duration of the agreement.

In adherence to the provisions outlined in Law No. 2/1960, it is mandated that all profit-sharing

agreements between landowners and tenant farmers be documented in written form and witnessed by two individuals—one designated to represent the landowner and the other, the tenant farmer. Subsequently, these agreements are presented to the Village/Sub-District Head, serving as the local government authority, for formal acknowledgment, following which they are submitted to the District Head, the overseeing superior authority, for approval. The creation of written profit-sharing agreements is designed to forestall misunderstandings and acts as a preemptive measure against potential disputes that may arise between the involved parties in the future.

The delineation of obligations within profit-sharing agreements between landowners and tenant farmers must be prominently evident, particularly concerning the agricultural financing burden. This encompasses various expenses inclusive of seed procurement, fertilization, pesticide acquisition, land preparation until planting, and costs incurred during the planting and harvesting phases. These expenses are mutually borne by the landowner and the tenant farmer. Notably, costs linked to labor—whether rendered by the tenant farmer or hired workers—constitute the tenant farmer's contribution within the ambit of the profit-sharing agreement. However, the formal and material fulfillment of land taxes remains the sole responsibility of the landowner and should not be levied upon the tenant farmer.

The allocation of profits, delineating the entitlements of both landowners and tenant farmers in specific regions, is stipulated by the Regent/Mayor and necessitates communication with the local Regional Representatives Council. As elucidated within the framework of Law No. 2/1960, the guideline governing profit-sharing ratios between landowners and tenant farmers in rice cultivation adheres to a 1:1 ratio. This apportionment is made after the comprehensive reimbursement of production costs, remunerated without interest to the party responsible for these expenses. The determination of this profit-sharing ratio remains subject to reassessment after its implementation over three years.

The precise timeframe of the profit-sharing agreement must be explicitly delineated within the agreement document. It imposes a minimum duration of three years for paddy fields and a stipulated minimum of five years for dry land. Nevertheless, under exceptional circumstances, wherein land is conventionally managed singularly by the landowner, the agreement's duration may be shorter than three years for rice fields or less than five years for dry land. Upon the agreement's expiration, if there are still unharvested crops remaining on the land, the agreement automatically extends until the harvest's culmination, with an extension duration not exceeding one year.

The continuity of the profit-sharing agreement persists despite the transfer of land ownership to a new entity. In such instances, all rights and obligations originally vested in the landowner under the profit-sharing agreement are transferred to the new proprietor. Moreover, in the event of the tenant farmer's demise, the agreement endures, with the same rights and obligations assumed by their heirs. Premature termination of the agreement necessitates mutual consent from both parties involved, subsequently reported to the local Village/Sub-District Head. Furthermore, the agreement may be terminated if the tenant farmer fails to meet obligations, inclusive of failing to deliver the designated portion of land yield to the landowner, defaulting on the financial commitments delineated in the profit-sharing agreement, or transferring land possession to another individual

without the explicit consent of the landowner.

Several stipulations pertinent to profit-sharing function as guiding principles for all entities engaged in profit-sharing agreements. Undoubtedly, the involvement of local government in explicating and overseeing these provisions, as delineated in Law No. 2/1960, complemented and enriched by indigenous wisdom inclusive of customary practices, traditions, and local cultural heritage, plays a pivotal role in facilitating landowners and tenant farmers to implement profit-sharing agreements following the extant regulations.

B. Implementation of Rice Farming Profit-Sharing

The pervasive practice of profit-sharing in rice farming prevalent within rural communities finds its roots in the symbiotic relationship between landowners and tenant farmers. Landowners, lacking requisite knowledge, skills, labor, and time, are reliant on farmers to till and prevent their fields from lying fallow. Conversely, numerous farmers oversee relatively modest parcels of land (less than 0.50 hectares), some bereft of any arable land altogether. Consequently, these farmers necessitate additional land to augment their agricultural output each planting season. It is at this juncture of mutual needs that the collaboration between landowners and tenant farmers materializes, often culminating in the establishment of a profit-sharing agreement.

The Form of Profit-Sharing Collaboration Agreement

The prevalent profit-sharing agreements between landowners and tenant farmers commonly subsist in oral form, lacking formalization in written documentation. This practice hinges upon a robust mutual trust between both parties, wherein the verbal agreement is deemed sufficient owing to the established trust. Moreover, landowners tend to allocate land-use rights exclusively within their immediate social circles encompassing relatives, acquaintances, neighbors, or individuals with whom enduring relationships are maintained, founded on known character traits and personal attributes. The bestowed trust from landowners is conscientiously upheld by tenant farmers, thus fostering enduring profit-sharing collaborations that extend across generations to their respective heirs.

In practice, verbally established profit-sharing agreements notably lack comprehensive discussions encompassing delineations of rights, responsibilities, production expenses, risk mitigation strategies in the event of crop failure, yield allocation, stipulated timelines for agreement termination, and other requisite mechanisms. This phenomenon is attributed to both parties' adherence to executing these agreements predicated upon longstanding traditional customs inherited across successive generations. Consequently, there exists a prevailing perception of dispensing with the necessity for witness accounts or the involvement of local authorities in the implementation of these agreements.

The prevalence of oral profit-sharing agreements devoid of witness accounts and the absence of engagement with local authorities has been documented in prior research findings concerning profit-sharing agreements (Herdiawan *et al*., 2022; Shidiqie, 2017; Priyadi & Shidiqie, 2015; Mutallib, 2015).

Rights and Responsibilities/ Commitments in Profit - Sharing Collaborations

The nuances within profit-sharing arrangements between landowners and tenant farmers are comprehensible by

examining the rights and corresponding responsibilities or obligations inherent to both parties. Derived from interviews conducted with primary and supporting informants, an elaborate delineation of the rights and obligations encompassed within the executed profit-sharing agreements is presented in Table 1.

Table 1
Rights and Obligations of Landowners and Tenant Farmers in the Implementation of Profit-Sharing in Paddy Farming

Landowner	Tenant Farmer
Obligations/Responsibilities: a. Providing paddy fields to be managed by tenant farmers. b. Sharing the costs of seed procurement, fertilizers, pesticides, harvest equipment rentals, and transportation costs of the harvest with the tenant farmers. c. Solely responsible for paying land tax for the owned land/paddy fields.	Obligations/Responsibilities: a. Providing knowledge, skills, labor, and time to manage the paddy fields provided by the landowner. b. Sharing the costs of seed procurement, fertilizers, pesticides, harvest equipment rentals, and harvest transportation with the landowner. c. Solely responsible for the tractor rental costs for land preparation (up to planting readiness), seeding costs, and labor costs for planting. d. Bearing losses due to crop failure.
Rights: a. Receiving a 1:1 profit-sharing proportion, meaning obtaining 50 percent of the harvest after considering and reimbursing all jointly borne agricultural costs.	Rights: a. Receiving a 1:1 profit-sharing proportion, meaning obtaining 50 percent of the harvest after considering and reimbursing all jointly borne agricultural costs.

Source: Processed Primary Data, 2023

Distinct expenses, such as tractor rentals for land preparation (until planting readiness), seeding costs, and labor expenditures for planting operations, are exclusively borne by the tenant farmer and are not accounted for within the profit-sharing arrangement. Consequently, despite the profit-sharing ratio adhering to a 1:1 proportion, the realized net income accruing to the tenant farmer is comparatively lower in comparison to the net income acquired by the landowner.

Furthermore, in adherence to the terms outlined within the profit-sharing agreement, the expenses incurred for seed procurement, fertilizers, and pesticides are designated to be shared between the landowner and the tenant farmer. Nevertheless, in practical application, a recurrent tendency emerges wherein the landowner delegates the entire responsibility for arranging these production essentials to the tenant farmer during the preparatory stages of planting. This practice is attributable to the absence of explicit and comprehensive delineation within the profit-sharing agreement identifying the responsible party for bearing the agricultural production costs. Consequently, this allocation of production costs has the potential to significantly burden the tenant farmer, particularly during the initial planting phase of production.

The preparatory phase of planting necessitates a substantial allocation of financing across various facets of agricultural production. Extracted from interviews conducted with primary informants, the requisite financing comprises seed procurement expenses totaling 250,000 IDR per hectare, urea fertilizer procurement costs amounting to 480,000 IDR per hectare, NPK fertilizer procurement expenses totaling 840,000 IDR per hectare, pesticide procurement costs of 250,000 IDR per hectare, seeding expenses reaching 200,000 IDR per hectare for seed requirements, land preparation costs incurred up to planting readiness amounting to 1,500,000 IDR per hectare, and labor expenditures for planting at 1,500,000 IDR per hectare.

Aligned with the preceding details delineated in Table 1, the breakdown of expenses indicates that costs—associated with land preparation tractor rental, seeding, and planting labor—are the individual responsibility of tenant farmers. However, expenses for the acquisition of production resources (e.g., seeds, fertilizers, and pesticides), equipment rentals for harvesting, and transportation for the harvested yield are shared between landowners and tenant farmers. This denotes that during the planting season, each hectare of cultivated paddy fields necessitates tenant farmers to independently muster farming capital totaling 3,200,000 IDR. In contrast, the joint contribution expected from landowners and tenant farmers amounts to 1,820,000 IDR per hectare. Consequently, the aggregate farming capital prerequisite for tenant farmers, exclusive to planting preparations, approximates 4,110,000 IDR per hectare, while for landowners, it stands at 910,000 IDR per hectare, exclusive of land tax liabilities. Notably, the expense incurred for harvesting machinery is not remunerated in cash; instead, it is compensated through paddy sacks during the actual harvesting in the paddy fields. This compensation operates at a harvest ratio of 10:1, signifying that for every 10 sacks of paddy harvested, the machine owner receives 1 sack of paddy. Furthermore, there exists a transportation fee amounting to 10,000 IDR per paddy sack for the harvested yield.

For tenant farmers equipped with adequate capital and diligent financial planning, the aforementioned financing requisites pose minimal concern. This segment of farmers efficiently acquires seeds, fertilizers, and pesticides, adhering to prescribed guidelines, thereby ensuring optimal agricultural output. Conversely, interviews conducted with primary informants elucidated a spectrum of strategies employed by tenant farmers grappling with constrained financial resources to address the exorbitant costs associated with planting preparations. Firstly, some individuals resort to borrowing funds from relatives, family members, neighbors, or fellow farmers. Alternatively, others opt for recourse to high-interest moneylenders, with loan settlements typically scheduled post-harvest. Secondly, certain farmers avail themselves of goods (as opposed to monetary loans) from retail establishments vending agricultural resources, such as seeds, fertilizers, and pesticides. These borrowed resources are returned post-harvest, albeit at inflated prices compared to standard market rates. Thirdly, farmers refrain from borrowing funds or resources, opting instead to utilize available production means. This practice involves employing non-certified seeds, using inadequate types or quantities of fertilizers, and implementing suboptimal weed, pest, and disease control due to constraints in production resources. Fourthly, the tenant farmers, after planting with non-certified seeds, opt to allow the crops to grow naturally, devoid of any fertilization or maintenance, and only revisit them close to the harvest

period. As elucidated by Handayani *et al*. (2018), the first and second methodologies are classified as networking strategies, while the third and fourth are denoted as passive strategies. The first and second strategies optimize agricultural output but potentially expose farmers to escalating debts due to insufficient management practices. Conversely, the third and fourth methods, though averting debt accumulation, may compromise agricultural productivity, failing to harness the land's full potential.

The financial burden can significantly weigh on tenant farmers in certain cases, particularly when landowners impose all costs of acquiring production resources and other necessities on them. Landowners justify this practice by promising reimbursement for all expenses the tenant farmers incur, to be settled at harvest before yield distribution. If tenant farmers have sufficient agricultural capital and achieve optimal yields, bearing the costs of planting preparations does not pose an issue. However, for those with limited capital or who obtain very low yields or even face crop failures, resulting in insufficient returns to cover the incurred expenses, it becomes problematic. In such circumstances, tenant farmers are vulnerable to losses as landowners refuse to share the losses resulting from crop failures.

Division of Agricultural Results

The division of yields generally follows a 1:1 ratio, wherein both the landowner and the tenant farmer receive a 50 percent share. This proportion is typically based on local customs rather than district regulations or local authority directives. Similar findings are also evident in studies by Mokodongan *et al*. (2016) and Bawohan *et al*. (2021).

The division process is initiated with the calculation of jointly incurred expenses (e.g., seeds, fertilizers, and pesticides), which are then reimbursed to each respective party. The net yield, calculated after deducting these shared expenses, serves as the basis for determining the net yield division between landowners and tenant farmers. Given that the agricultural expenses borne by tenant farmers exceed those of the landowners, the net income received by the landowners significantly surpasses that received by the tenant farmers in each planting season. Similar research findings were reported by Hadiana (2017), Damayanti (2022), Mutallib (2015), Novia & Satriani (2020), and Manatar *et al*. (2017).

The distribution of these yields tends to trigger conflicts between landowners and tenant farmers, particularly during the calculation of shared expenses incurred by both parties. Instances occur where tenant farmers fail to record some or all of the expenses during the agricultural production process. This could lead to inaccuracies in determining the shared expenses. Landowners might suspect that the tenant farmers deliberately omitted or were not transparent about certain expenses, possibly assuming fraudulent activities in the calculation of agricultural production costs. Without a proper resolution, this situation has the potential to escalate into conflicts, resulting in the termination of the profit-sharing arrangement between landowners and tenant farmers.

Termination Period of Profit-Sharing Agreement

In a profit-sharing agreement between landowners and tenant farmers, the termination period is highly flexible. The profit-sharing arrangement persists as long as both parties still require each other. Termination of the profit-sharing arrangement primarily relies on mutual agreement between the involved parties to cease the collaboration. Upon the conclusion of the profit-sharing agreement, the return of the cultivated

land from the tenant farmer to the landowner takes place.

Furthermore, the mechanism for its return involves the land being in good condition and empty, without any rice or other seasonal crops being cultivated. If there are still crops in the cultivated land, it awaits harvesting completion before returning it to the landowner.

C. Weaknesses in Profit-Sharing Collaboration

Several weaknesses exist in the execution of profit-sharing agreements between landowners and tenant farmers. These are as follows: (1) Profit-sharing agreements being unwritten, lacking involvement from local authorities, are prone to conflicts and could result in cooperation termination without mediation; (2) Placing the entire burden of production costs on tenant farmers may diminish agricultural output and income; (3) Tenant farmers consistently face disadvantages during periods of low production or crop failures; (4) The distribution of yields tends to be unfair and disproportionate considering the financing burdens and the risk of crop failure.

Profit-sharing agreements being unwritten and lacking involvement from local authorities are prone to conflicts and could result in cooperation termination without mediation.

The existing profit-sharing arrangement has been exclusively verbal, lacking a written form. This situation can lead to problems, particularly when conflicts arise between landowners and tenant farmers. Both sides might blame each other regarding their rights and responsibilities. One party might demand excessive rights and enforce their will without considering the obligations that must be fulfilled. Without a written agreement, landowners might unilaterally shift the entire financial burden of farming to tenant farmers, who lack the leverage to refuse due to their weak position in the profit-sharing cooperation.

The vulnerability of tenant farmers to landowners in orally arranged profit-sharing collaborations is hard to mediate. This occurs because oral agreements are known solely to both parties; there are no witnesses or other involved entities, including the absence of local government engagement. Without effective mediation, the tenant farmers' vulnerability will persist. Landowners might unilaterally terminate the profit-sharing arrangement if the tenant farmers refuse to bear the entire production costs allocated specifically for the planting preparation phase.

Placing the entire burden of production costs on tenant farmers may diminish agricultural output and income.

Landowners often burden tenant farmers entirely with the production costs for crop preparation. This practice proves disadvantageous, especially when tenant farmers lack sufficient capital. The imposition of production costs beyond the farmers' capacity can significantly diminish agricultural production and income. Financial constraints force tenant farmers to prepare their farms with limited resources, resulting in inadequate use of seeds and fertilizers, and insufficient plant maintenance, diverging from recommended practices. Consequently, the yield produced falls short of its potential. This reduced production directly impacts the diminishing incomes of both parties involved in profit-sharing cooperation. This declining income can affect the availability of funds for acquiring production resources in the subsequent planting seasons. On a broader scale, this practice poses a threat to the sustainability of rice farming and

consequently endangers national food security.

Tenant farmers consistently face disadvantages during periods of low production or crop failures.

One distinct aspect of rice farming, and agriculture in general, is its sequential production process. It starts with seed selection, land preparation, planting, weeding, fertilizing, pest and disease control, and progresses to harvesting and post-harvest processes. This means that agriculture undergoes biological processes before yielding a final product. These processes are highly susceptible to suboptimal environmental conditions caused by natural disasters (e.g., droughts, floods, or landslides) or attacks from plant pests and diseases. These factors continuously threaten rice farming, often resulting in low production or crop failure (known as "*puso*") (Prabowo *et al*., 2021; Kaleka *et al*., 2020; Suharyanto *et al*., 2015).

The constant threat of low production or crop failure haunts farmers in every planting season. The problem arises when landowners refuse to share losses with tenant farmers during instances of low production or crop failure. All losses incurred due to these situations are entirely borne by the tenant farmers. The burden of production costs and the risk of low production or crop failure are crucial aspects for tenant farmers, yet these factors have not been considered during profit-sharing distributions.

The distribution of yields tends to be unfair and disproportionate considering the financing burdens and the risk of crop failure.

A 1:1 profit-sharing ratio can be considered insufficient in ensuring fairness for tenant farmers. The 1:1 ratio is only suitable for profit-sharing agreements if the landowner agrees to bear the entire burden of farming financing, including sharing the risk of losses due to low production or crop failure with the tenant farmers. This is reasonable considering that all financing burdens will be calculated and reimbursed to the responsible party before profit distribution. Specifically, regarding the risk of crop failure, the current profit-sharing agreements have yet to utilize the Agricultural Insurance Program for Rice Farming (Indonesian: *Program Asuransi Usaha Tani Padi* [AUTP]) facilitated by Indonesia's government through the Ministry of Agriculture. With AUTP, farming losses caused by natural disasters (e.g., floods, droughts, or landslides) and pest attacks will be compensated by insurance companies, ensuring funds for the subsequent planting season (Halim *et al*., 2022; Saragih *et al*., 2018).

D. Efforts to Improve Profit-Sharing Cooperation

Based on the identified weaknesses in profit-sharing cooperation, there is a need for refinement efforts (see Table 2). These improvements should start with formalizing the profit-sharing agreement in written form. It should outline the rights, obligations, and applicable sanctions for both parties—the landowner and the tenant farmer. This agreement should have two witnesses, one from each side, and the local government's acknowledgment.

Within this written agreement, the responsibilities of the tenant farmer and the landowner regarding bearing all farming production costs, including paying the AUTP premiums to mitigate the risk of crop failure, must be explicitly, fairly, and reasonably defined to avoid burdening any one party. Specifically, the farming profits should be distributed in a 1:1 ratio after calculating and reimbursing the farming expenses incurred by each party.

Table 2
Policy, Implementation, Weaknesses, and Efforts to Improve Profit-Sharing Cooperation in Rice Farming between Landowners and Tenant Farmers

Profit-Sharing Cooperation	Provisions of Law No. 2/1964	Implementation	Weaknesses	Improvement Efforts
Form of agreement for profit-sharing collaboration	Agreements are to be made in writing in the presence of the Village Head and witnessed by two representatives from each side. The Village Head provides a certification letter as evidence of the agreement, which is then validated by the District Head (Article 3, Paragraph 1).	It was carried out informally, lacking witnesses from both sides, excluding the village and district governments, and relying on mutual trust between both parties.	Conflicts between landowners and tenant farmers, which are difficult to mediate, often result in unilateral termination of cooperation by the landowners.	Agreement in written form; Having two witnesses; Recognized and validated by the local government; Containing rights, obligations, and applicable sanctions for both parties.
Allocation of agricultural production costs	Costs for seeds, fertilizers, land preparation, planting, and harvesting can be covered by the landowner, tenant farmer, or both parties (Explanation of Article 1, Letter d).	Generally, the entire burden of agricultural production costs falls solely on the tenant farmers.	Placing the full burden of production costs on the tenant farmers potentially reduces agricultural production and income.	All agricultural production costs are evenly split between both parties: 50 percent by the tenant farmers and 50 percent by the landowners.
Management of crop failure risks	In the event of natural disasters and/or pest infestations causing damage to the land and/or crops, farming losses become the responsibility of both parties	The complete risk of crop failure rests on the tenant farmers; landowners are unwilling to assume this risk.	Tenant farmers consistently suffer in cases of low production or crop failure.	Both parties share the risk of losses due to low production or crop failure, and as a precaution, they agree to cover the AUTP premiums.

	(Explanation of Article 10).			
Division of farming profits	The distribution of profits is determined by the Regent, considering economic factors and local customary regulations, in a 1:1 ratio after calculating and reimbursing all production costs to the responsible party (Article 7, Paragraph 1).	Profit-sharing follows local customs, using a 1:1 ratio, meaning 50 percent for the tenant farmers and 50 percent for the landowner.	Profit-sharing tends to be unfair and disproportionate, ignoring economic factors, such as compensating the party covering production costs and/or the risk of crop failure.	Profit-sharing follows a 1:1 ratio, meaning 50 percent for the tenant farmers and 50 percent for the landowners, after accounting for and reimbursing all farming expenses, including those covered by the tenant farmers.

Source: Processed Primary Data, 2023

The improvement of profit-sharing cooperation between tenant farmers and landowners, including the collaboration format, allocation of agricultural production costs, risk management in case of crop failure, and distribution of farming profits, should be established in the form of regional regulations to be followed. This will ensure that profit-sharing is executed fairly and mutually benefits both parties.

CONCLUSIONS

The profit-sharing system in rice farming currently applied has not fully complied with governmental regulations; mostly, it still follows local traditions. The profit-sharing arrangement between tenant farmers and landowners is typically oral and known only to both parties. The entire burden of agricultural production costs and the risk of crop failure falls solely on the tenant farmers. Moreover, profit distribution is uneven, and landowners often unilaterally terminate agreements. Hence, the profit-sharing agreement must be documented. The distribution of agricultural production costs, including the payment of AUTP premiums to anticipate crop failure risk, should be clearly defined, fair, and not burdensome to either party. In addition, profit distribution should align with contributions, and unilateral termination should involve the local government officials. These aspects need to be established in regional regulations to ensure fair profit-sharing and mutual benefit for both parties.

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