

# **Micro Finance Model of Agriculture in Supporting Economic Growth in Aceh**

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## **ABSTRACT**

The general objective of this study was to analyze the model of micro-financing of agriculture in order to develop the rural economy and support economic growth in Aceh. The specific purpose of this study is to identify and analyze the social and economic profile of households recipient farmer agricultural credit and micro enterprises in Aceh, to evaluate the performance of credit financing to the Government Bank Sector Micro Farms, identify prospects, challenges and constraints of microfinance institutions in microfinance lending farming in Aceh and analyze the sustainability of microfinance models of agriculture in Aceh, and formulate policies appropriate agricultural micro-financing in supporting economic growth in Aceh.

Financing system analysis conducted qualitative description, including ease of access to credit, credit suitability, filing and retrieval mechanism of credit, smoothness, obstacles and constraints in lending, loan interest rate and loan repayment system including congestion anticipation loans. Determination of the effectiveness of microcredit agriculture Scoring is done via method. The effectiveness of agricultural micro-credit schemes assessed through

monitoring and evaluation of the performance of some aspects of inputs, processes, outputs, outcomes, benefits and impact. Analysis of the sustainability of credit schemes analyzed based on financial viability, institutional viability (managerial), and the viability of the participants, Results of studies in which micro-financing system for farming and still there has been no financial institution that helps, financing done still in the form of government assistance to the farmers and there is no oversight of government ranging from distribution, so that harvesting and collection processes, outputs, outcomes, benefits and can not feel the impact in the community.

Keywords: Finance, Micro, Outcomes, Benefits and Impact

## **I. INTRODUCTION**

### **1.1 Scope of Research**

Echoes of the role of credit, particularly micro-credit for the creation of self-employment (self-employment) in order to reduce poverty in rural areas began to develop widely in the world since the convening of microcredit summit in 1997 in Washington DC. United States of America. Socialization and large-scale campaign carried out in almost all countries in the world. The micro summit aims to reach 100 million poor people in the world in 2003. Microfinance is a powerful tool to promote economic growth, reduce poverty, promote growth of human resources and improving the status of women (Asian Development Bank, 1998).

The agricultural sector is not only the largest contributor to the Gross Domestic product (GDP) of Aceh, but also sectors that support economic growth in Aceh. Data Bank Indonesia said that in 2011, economic growth in Aceh grew significantly by 5.02 percent from 2.79 percent in 2010. The increase in growth only occurs in the agricultural sector and the services sector with growth of 6.74 each percent and 4.43 percent. However, the development of this sector is still underdeveloped (Kompas, 2012).

The agricultural sector in Aceh mostly in the category of micro, small and medium enterprises sector (MSM). Credit statistics show, MKM agricultural sector only has a share of 0.76 percent, far than lending to the trade sector, which reached 25.96 percent. In fact, credit, capital urgently needed agricultural sector actors, especially farmers to be able to develop its agricultural business. In terms of the level of non-performing loan (NPL) or non-performing loans, the agricultural sector only showed figures of 7.89 percent or far below the construction sector, which reached 34.49 percent. NPL rate of the agricultural sector also recorded lower than the manufacturing industry and trade, which respectively reached 9.95 percent and 8.17 percent. Some of the factors that lead to low credit at MKM sectors, especially agriculture, which are weak capital structure and lack of access to sources of financing, the lack of market access to potential markets, and the quality of goods produced have not been standardized. Agricultural businesses are usually not achieve economies of scale so that the overhead costs high and cause very minimal benefit farmers (Bank Indonesia, 2012). In 2011, economic growth in Aceh grew significantly, namely 5.02 percent from 2.79 percent in 2010. The increase in growth occurred in the agricultural sector and the services sector with growth of respectively 6.74 percent and 4.43 percent, while other sectors slowed. In the structure of GDP, the

agricultural sector in Aceh with contribute 27.70 percent by the fourth quarter of 2011. The sector is dominated by the food crops, such as grains, corn, tubers, and nuts.

Research on the model of development and micro-finance systems in the agricultural sector is very important given the finance function effectively to achieve the optimum level in terms of the scale of business and technology adoption both production and post-harvest technologies that can create business efficiency that can increase the income of farmers in particular, economic development rural and economic growth in Aceh in general.

## **1.2 Research Objectives**

Analyzing agricultural micro-financing models in order to develop the rural economy and support economic growth in Aceh.

The specific objective of this research can be described as follows:

1. Identify the socioeconomic profile of farmers' households and micro credit recipients agriculture in Aceh
2. Evaluate the financial performance of the Bank's credit to the Government of Micro Agricultural Sector
3. Identifying prospects, challenges and constraints of microfinance institutions in microfinance lending agriculture in Aceh.
4. Analyze the micro-financing system of agriculture include access to credit, the distribution mechanism and micro-finance loan repayment system of agriculture in Aceh.

## **2. LITERATURE**

### **2.1 Micro Financing Program of Agricultural Development in Indonesia**

Financing is one of the strategic component in the revitalization of agriculture. Broadly speaking, agricultural finance policy covers two things: (1) agricultural development financing policies that prioritize the budget for agriculture and supporting sectors; and (2) agricultural finance policy that is accessible to the public (MOA, 2005). Both of these policies aim to provide capital assistance for businesses in agriculture. In general, capital assistance program or a credit for the agricultural sector comes from the following sources: (1) from the State Budget (APBN), such as credit BIMAS, KUT, Food Security Credit (CTF), Skim Agricultural Financing Services (SP3), BLM, development of Microfinance Institutions (LKMA); (2) foreign aid projects in the form of bilateral relations such as Second Kennedy Round (SKR) and of multilateral cooperation such as Farmers' Income Improvement Program / Small Fishermen (P4K) (Ashari, 2009).

In 2008 the government through the Ministry of Agriculture launched a new program called the Rural Agribusiness Development (PUAP). PUAP is part of the implementation of the PNPM - Mandiri through the help of venture capital in order to develop agribusiness in accordance with agricultural potential target villages which aims to reduce poverty and increase employment opportunities (Paloma, 2013).

Strengthening venture capital group / PMUK, interest subsidy (Food Security Credit / CTF) or who have a commercial approach (Skim Care Financing Agriculture / SP3). SP3 is agricultural finance schemes to encourage financing / credit on micro enterprises and small-scale

agriculture through executing banks by way of the provision of underwriting services and facilities for credit risk. In general guideline Agricultural Financing Services Scheme issued by the Ministry of Agriculture in 2006, the goal rather than SP3 are: (1) Provide certainty every effort micro and small agricultural sector to obtain the services of credit / financing; (2) encourage lending / financing of banks implementing the agricultural sector through insurance mechanisms and for risk; (3) increase the portfolio of credit / bank financing to the agricultural sector.

Each scheme has rules, procedures and administrative requirements and different objectives. For managers of financial institutions, the problems encountered varied, ranging from the selection of potential borrowers to the implementation on the ground. As for businesses, the problems faced not only in business activities, but also problems related to accessibility to financing schemes that exist (Aha et al, 2003).

## **2.2 Problems in Credit Markets**

In rural areas, there are two types of credit markets or market financing (Aha et al, 2003), the formal financial market and informal financial markets. Formal financing sorted again into the financing program and non-program financing. Financing non-program operates in rural filing and distribution mechanisms follow the market mechanism. That is, the rules of eligibility applied formally, such as the interest rate is the interest rate charged to commercial and serviced by formal institutions. While financing is financing schemes in implementation associated with a government program that generally sector program. Typically the program is a sector effort to achieve certain objectives, such as CTF (Credit Food Security) to increase food production, Primary Cooperatives Members (KKPA), Family Income Improvement Effort Acceptor (UUPKA) and others. In practice, the program is admittedly still face many obstacles and barriers, not only on the provider of funds but also on the part of the beneficiary as businesses. For example, credit uptake and energy food security program is not more than 30%. New-Keynesian approach suggests that basically runs the credit markets are not perfect (imperfect market), especially in the presence of asymmetric information among market participants. The information asymmetry leads to moral hazard of action is to use the credit for other purposes that are at high risk. In addition, adverse selection problem arises that the declining quality of the credit worthiness of the debtor.

## **2.3 Role of Microfinance Agriculture and Economic Growth**

Much of the literature and research results have proved that the interrelation between financial system development / financing with the level of investment and economic growth is to exist. The main focus of the development of the financial system, especially the banking system, is an increase in external financing or bank credit to the business or the real sector. Some research has also shown that the development of the financial system is closely linked to the level of investment and economic growth. The relationship between the type of financial system with the level of investment and economic growth. Five basic functions of financial intermediation can enhance the effect of the financial sector to economic growth, among others: (a) mobilize savings; (B) risk management; (C) obtaining information; (D) monitor the

borrower and the use of controlled companies; and (e) facilitate transactions (Levine, 1997: Allen and Gale, 2000, Beck et. al. 2001 and Wachtel, 2001 in Wahid, 2011)

Dey and Falherty (2005) explains that the provision of bank credit was instrumental in determining the level of investment and economic growth rates. Another factor determining the level of investment and economic growth rate is the interest rate of bank credit. The development of the financial system and the efficiency of the financial system as a whole has affected the level of investment and economic growth. The study is supported by studies Freedman and Paul (2004), which explains the positive relationship between institutional structure with economic growth and investment rates in industrialized countries.

## **2.4 Preliminary Study**

Previous research underlying this research, including research analysis PUKK lending Pertamina UPMS I Medan for small entrepreneurs in Nanggroe Aceh Darussalam. The survey results revealed that the current ratio, profit margins, credit guarantees, level of experience, and the economic sector effect on lending. While the quick ratio, economic profitability, character debtor has no effect on lending decisions (Khadafi, 2003)

Support previous research related to micro loans and credit utilization for the community based micro-finance research on finance and community development in 12 Rural Environment PT Arun Kota Lhokseumawe, known that alms productive positive and significant impact on the economic empowerment of the community. Micro financing of alms proceeds channeled to communities, companies PT. Arun Kota Lhokseumawe through venture capital greatly assist the growth of income for the recipient. The provision of such assistance to the people who have a business. This empowerment through productive alms (Khadafi, 2010).

## **3. RESEARCH METHODS**

### **3.1. Method Location and Respondent Research**

The research location is determined by purposive taking into account the objectives of the program financing or financing the implementation of the scheme, including credit and interest rate of financing to develop the commodity / target institution. Location studies to analyze agricultural micro finance schemes include Credit Food Security (CTF), Skim Agricultural Financing Services (SP3), and PUAP done in Pidie and North Aceh District. In each district, will be selected one district and two rural credit development potential. Each village would have been 15 farmers agricultural micro-credit users. So the number of farmer respondents is 60 people. Determination of the respondent institutions loan portfolio will be adjusted with the structure and credit problems.

### **3.2. Methods and Data Collection Procedures**

Data sources can be classified into primary data sources (primary sources of data) and secondary data sources (secondary of data sources). Primary data were obtained using a structured questionnaire based on interviews with survey respondents. Secondary data sources of documentation on the various relevant agencies and BPS BAPPEDA Aceh include, Ministry of Agriculture Office, Statistical Office of the District, journals and scientific publications, as well as a variety of other official data sources.

### **3.3. Data Analysis**

Identifying a descriptive analysis of socio-economic profile of households farmers and micro credit recipients agriculture in Aceh .

## **4. Research**

### **4.1. Agricultural Microfinance Program In Aceh**

Agricultural micro businesses are constrained by lack of access to capital, management of farmers, availability of production facilities and infrastructure limited impact on the decline in production and farm productivity. Farmer's capital can be sourced from own funds, loans from the kiosk farmer (specifically for seeds, fertilizers and pharmaceuticals), moneylenders loan / brokers, and finance programs originating from government funds. Until now, there has been no private investment in the form of Private Microfinance Institutions which provide loan finance for capital for farmers farming in Aceh. This is due to the high risk of crop failure due to poor management of human resources, lack of infrastructure support, moral hazard, and security conditions in Aceh are not yet supported. Although Aceh has considerable potential for agricultural development.

Currently, the program encouraged the government is financing the distribution of program funds Direct Aid Society of Rural Agribusiness Development (BLM-PUAP) which is a breakthrough program the Department of Agriculture for poverty reduction and job creation in rural areas while reducing the development gap between regions and between the center and regions subsector. Location PUAP in focus in 10,000 poor villages / underdeveloped agricultural potential with a total budget of 1 trillion.

The government is also planning the development of infrastructure through the village funds that are tailored to the needs of the village. The program is still in progress and is planned in 2015, the fund has been able to be rolled village for the construction of infrastructure such as roads, bridges, markets, irrigation, and others to support agricultural activities in rural areas.

In the framework of the protection and empowerment of farmers, farmer groups, and / or GAPOKTAN against a fall in prices of grain, rice and / or corn at harvest time and the problems of food accessibility, the government through the Ministry of Agriculture cq Food Security Agency carry out activities of the Institute of Food Distribution Society Strengthening (Strengthening -LDPM). Through strengthening activities-LDPM, government social assistance funds sourced from the State Budget (APBN) to GAPOKTAN in order to empower these institutions so that they are able and empowered to conduct food distribution activities, as well as the provision of food reserves. Distribution of social grants and the provision of mentoring and coaching gradually expected to have an impact, among others, the establishment of food prices, especially at the level of the farmer group union members and the realization of food security at the household level of farmers through increased incomes and improved food access GAPOKTAN members.

#### **4.2. Direct Assistance Program Disbursement Unit Agribusiness Rural Development Society (BLM-PUAP)**

Rural Agribusiness Development Program (PUAP) implemented by the farmers (owners of tenants or tenants), farm laborers and poor farm households in rural areas through coordination GAPOKTAN as an institution that is owned and managed by farmers. The Ministry of Agriculture has implemented since the year 2008-2014 Rural Agribusiness Development Program (PUAP) under the coordination of the National Program for Community Empowerment (PNPM Mandiri) and is in a group of community empowerment program.

Implementation of Rural Agribusiness Development (PUAP) Year 2015 refers to the basic pattern laid down in the Regulation of the Minister of Agriculture No. 06 / PERMENTAN / OT.140 / 2/2015 on Guidelines for Rural Agribusiness Development (PUAP) In 2015, to improve the success of the distribution of BLM -PUAP to GAPOKTAN in developing productive farmers. The basic strategy is carried out through community empowerment, to optimize the potential of agribusiness, small farmers venture capital facilitation, institutional strengthening and empowerment.

GAPOKTAN as executor PUAP, a collection of some farmer groups work together to increase economies of scale and efficiency of businesses that receive funds PUAP BLM. Joint development of farmer group (union) aimed at improving the ability of GAPOKTAN in carrying out its functions, increase the ability of the members to develop agribusiness, institutional strengthening farmer organizations farmer be strong and independent.

#### **4.3. Strengthening Institutions Program Food Distribution Society (LDPM)**

The policy conducted by the government through the Ministry of Agriculture in the implementation of activities aimed at achieving Strengthening-LDPM stabilization of food prices at the farm level and food security at the household level farmers through:

- a. Development of business units (business unit distribution or marketing or processing and management of food reserves)
- b. Construction of storage facilities owned by GAPOKTAN order to improve the bargaining position of farmers, increase value-added production of farmers and bring people's access to food sources

Strengthening-LDPM activities aimed at:

1. Empowering GAPOKTAN to be able to develop a business unit of distribution or marketing or processing of food reserves and the management unit, among other things in terms of:
  - a. Storage facilities (warehouses) itself.
  - b. Providing and managing food reserves (grain / rice) at least for the needs of its members in the face of famine
  - c. The stabilization of the purchase price for the commodity grain farmer members, rice and / or corn at harvest time through the purchase-sales activities.
2. Developing agribusiness through increased business of buying and selling of grain, rice and / or corn and other strategic food outside the harvest of grain / rice / corn.

3. Increase the value-added products farmer members through storage or processing or packaging and others.

Target-strengthening activities LDPM is GAPOKTAN existing / already exist, is not a new formation and meets the criteria, namely:

1. Located in the area of rice production centers / corn.
2. Have a business unit of distribution or marketing or processing of food reserves and the management unit
3. Have a warehouse for the storage facilities can be built or land for storage facilities (warehouses). The land is owned by GAPOKTAN or land donated to GAPOKTAN.

#### **4.4. Socio-economic profiles of farmers recipient household credit / grants and micro-enterprise farming in Aceh**

Table 1 explains that the growth in acreage, harvested area, productivity and production of rice in North Aceh District from 2008 to 2014. The growth in acreage by increasing from 57 804 hectares to 72 702 (25.77%), harvested area increased from 57 694 ha to 72 747 ha (26.09%), productivity increased from 48.02 kw / ha to 56.05 kw / ha (16.72%), and rice production increased from 277,034.20 tons to be 407 716, 14 tons (47.17 %).

Tabel.1 Developments Land Area, Harvested Area, Production and Productivity of Rice Intensification in North Aceh District

Year	Planted (ha)	Harvested Area (Ha)	Productivity (Kw / Ha)	Production (Ton)
2008	57.804,00	57.694,00	48,02	277 034,20
2009	56 627,00	53 724,00	53,05	285 019,80
2010	60 492,00	60 097,00	53,55	321 799,07
2011	72 702,00	72 747.00	56,05	407 716,14

Source: Department of Agriculture and Animal Husbandry North Aceh District

Livestock sub-sector which received funding from the government also increased, namely goats increased from 129 009 142 176 tail into a tail (10.21%), domestic poultry increased from 579 324 603 819 tail into a tail (4.23%), broilers increased from 332 420 head may be tails 335 190 (0.83%) and ducks increased from 322 512 332 703 tail into tail (3.16%). Percentage growth in broiler small relative because of the high risk of death due to disease and higher chicken feed prices (Table 2).

Table 2. Development of Goats and Poultry Population in North Aceh District

year	Goats (Tail)	Native Chicken (Tail)	Broiler (Tail)	Ducks (Tail)
2008	129.009	579.324	332.420	322.512
2009	139.373	591.620	328.640	325.829
2010	140.767	597.837	331.927	329.410
2011	142.176	603.819	335.190	332.703

Source: Department of Agriculture and Animal Husbandry North Aceh District

Concomitant with rice growth and goats and poultry farms, in general, regional per capita income in North Aceh District also increased from 2008 to 2013 is Rp. 9.27887 million increase to USD 12.0244 million, or a growth of 29.59% (Table 3).

Table 3. Development of Regional Income Per Capita Without Oil and Gas in North Aceh District

Year	Regional income per capita (Thousand)
2009	9.278,87
2010	10.143,33
2011	10.994,66
2012	12.024,40

Source: BPS - BPS North Aceh District

Identify prospects, challenges and constraints of microfinance institutions in channeling agricultural microfinance in Aceh

Agricultural micro finance portfolio is channeled through GAPOKTAN because until now there is no Micro Finance Institutions (MFIs) in Aceh. Although there have been directives from the government to establish a Microfinance Institution, but in fact GAPOKTAN not want to form a Microfinance Institution that is a savings and loan, because it is based on the rhetoric of failure of savings and credit cooperatives in Aceh is the crisis of confidence between the cooperative management with cooperative members because of the high misappropriation of funds in Aceh through cooperatives. Therefore, in this study the prospects, challenges and constraints of agricultural micro finance portfolio focused on GAPOKTAN level.

Efforts to empower GAPOKTAN and develop productive business through Direct Assistance Program Disbursement Unit Agribusiness Rural Development Society (BLM-PUAP) not only provide financial assistance but the government is also providing training for a number of GAPOKTAN as was done by GAPOKTAN PUAP in 2012, which is already undergoing training PUAP , special GAPOKTAN carried by Ciawi Management Training Centre, which is housed in Saree Aceh Besar district.

Until now, an estimated 20% GAPOKTAN successful in managing BLM-PUAP with final balance above Rp 100 million (> Rp. 100 million), 50% were classified GAPOKTAN successfully manage BLM-PUAP with the final balance ranging> Rp. 30 million to <IDR. 100 million, and 30% GAPOKTAN who do not successfully manage BLM-PUAP or refund due to the development of moral hazard at the farm level recipients of BLM-PUAP that the fund is a grant from the government is and does not need to be returned and also due to crop failure and is unable to return the BLM-PUAP so that the DAA can not be used again as a revolving fund that can be reused for GAPOKTAN empowerment and development of productive enterprises.

The problems that arise in the body GAPOKTAN because returns are very few in comparison with the distribution of the Fund In the first stage, it was caused by the many members of farmers who experienced crop failure or declining crop yields. However, based on the results of

a routine consultation committee and members of farmer groups, it was decided that the time period of repayment phase II members of the group who have not paid off stage I shall repay the remainder of the first stage which has not paid off until the next harvest.

Another issue is the development of moral hazard in a number of beneficiary farmers BLM-PUAP that the fund is a grant and does not need to be returned as well as financial management GAPOKTAN are not well structured which allows the misappropriation of funds at the level of BLM-PUAP GAPOKTAN, farmer groups and farmers recipient BLM-PUAP.

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Although there are a number of problems in implementation, but the program Disbursement BLM-PUAP very good for development and business management guidance accompanied by relevant agencies because it can overcome the problems of access to capital at the level of farmers and farmer organizations improve performance in order to realize food security and economic resilience of the region of Aceh, since until now there is no any microfinance institutions in Aceh who want to give credit to the farming activities are laden with risk of crop failure, land tenure is relatively small, modern agricultural system transition, and security conditions are unfavorable.

Source: BPS - BPS North Aceh District

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