

# A Study of Effect Agribusiness Micro Finance for Beef Cattle Farmers in South Sulawesi Indonesia

*by* Amidah Amrawaty

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## A Study of Effect Agribusiness Micro Finance for Beef Cattle Farmers in South Sulawesi Indonesia

A Asnawi<sup>1</sup>, A A Amrawaty<sup>1</sup> and Nirwana<sup>2</sup>

<sup>1</sup>Department of Socio Economics of Animal Science, Hasanuddin University, Makassar, Indonesia

<sup>2</sup>Department of Accounting, Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia

Email: aslinaasnawi@yahoo.com

**Abstract.** The low access to finance institution is one of the obstacles faced by beef cattle farmers in the rural area. The cause were the high interest rates, collateral, lack of information, inadequate credit supply, long procedures and a relatively long distance between farmers and finance institution. The existence of Agribusiness Micro finance Institutions in Indonesia is one of the steps taken to overcome the constraints access financing faced by the community in the rural area. The study examined the effect of Agribusiness Micro finance Institution beef cattle farmers in rural areas in South Sulawesi. The study used descriptive research. The convenient sampling procedure was used to select eighty beef cattle farmers. Data were generated through questionnaire and interview, then used descriptive and descriptive statistics analysis. The findings in this study were agrobusiness microfinance institutions increasing access to capital for beef cattle farmers, empowering farmer group members and increasing their involvement in farmer group activities, raising farmers awareness to allocate their savings for farmers group interest. Thus the micro agribusiness microfinance institution has had a positive impact on the economic life of the community farmer in the rural area.

### 1. Introduction

The agricultural sector has a very big role in economic development in Indonesia. In addition to contributing to the increase in national income, it also becomes a buffer of community life in rural areas where most of Indonesia's population is in rural areas. They rely on the agricultural sector as a source of income and become their livelihood. One of the sub sectors in the agricultural sector that is very potential to be developed is the livestock business, especially the beef cattle farming. Along with the increasing population of the animal protein needs also tend to increase so that the cattle breeding business plays a very strategic role in supporting national food security. Therefore, the government is now paying enormous attention to the development of cattle farming in rural areas.

One form of government support is to look for solutions to capital constraints faced by most farmers in rural areas other than due to problem of market and technology and farm organizations are still weak. The financial constraints faced are: (1) the existence of formal financial institutions in rural areas is still very limited, (2) procedures and requirements are considered difficult and heavy, (3) relatively high interest rates and described earlier research [1] that (1) low information on sources of financing, (2) lengthy procedures, (3) requirements difficult to be met by mainly collateral breeders, and (4) farmers' relatively remote location from formal financing institutions such as banks. [2] mentioned that some barriers to accessing credit in banking are the high interest rate, collateral requirement required by the bank, procedure and longtime related to the proposal of credit.

Farmers generally use their own capital to finance their livestock business as well as used to finance their daily needs. As explained [3] that almost 90% of self-employed farmers use their own capital to finance their agricultural business. In addition, in general, farmers need credit that the

amount is not too high that is only to fix the cage if the intensive maintenance, buying feed and increase the number of cattle maintained.

Based on some of these conditions it is the reason the government took a policy through the Ministry of Agriculture since 2008 has issued Rural Agribusiness Development Program. Furthermore, the implementation of that program refers to the basic pattern as stipulated in Regulation of the Minister of Agriculture No. 16/OT.140/3/2009 [3] and refined through Regulation of the Minister of Agriculture No. 06 /OT.140/2/2015 on General Guidelines of Agribusiness Development Rural areas of education and training for business development, assistance and granting of business capital assistance facilities to member farmers, both owner farmers, farm workers and farming houses coordinated by the Joint Farmers' Group. In its development, Farmers Group as the recipient of Rural Agribusiness Development Program is the forerunner of the establishment of Agribusiness Micro Finance Institution in rural areas.

According to the Asian Development Bank (ADB) definition, the MFI serves as an institution that provides deposit services, loans, payment services and money transfers aimed at the poor and small entrepreneurs. If referring to [4] on Microfinance Institutions are defined as financial institutions specifically established to provide business development services and community empowerment, either through loans or financing in micro-enterprises to members and communities, savings management, business development consultation that is not solely for profit.

The existence of MFI can be an alternative financial institution that is very close to the farmers both physically because of the proximity of location and psychological and socio-cultural aspects so it is expected that MFI able to overcome the problems of farmers against low access to finance. Therefore, this study aims to determine the impact of Agribusiness Micro Finance Institution to beef cattle farming.

## 2. Materials and Methods

The study was conducted in Sinjai district of South Sulawesi. This area is chosen as a research location because there are several Agribusiness Micro Finance Institution (*Lembaga Keuangan Mikro Agribisnis/LKMA*) that still exists until now. In addition, that MFI since receiving Rural Agribusiness Development Program funds until now remain concentrated in helping members of farmer groups incorporated in farmers group to get access to capital although small in accordance with the needs of each member. This study was conducted for fourth months.

The number of farmers analyzed in this study was 80 people taken from 40 people per village. This is because the number of members of each unity of farmers group is almost the same, namely 140 people in Patalassang Village and 130 people in Biroro Village.

The research activities include: 1) conducting preliminary survey, 2) identifying farmers group having Agribusiness Micro Finance Institution; 3) separating farmers group channeling Rural Agribusiness Development Program funds for beef cattle farm with other business; 4) collecting data from combined farmers group spread in some districts using questionnaires and conducting in depth interviews to the Animal Husbandry and Animal Health Service, Food Crops, Horticulture and Plantation Office, Head of Livestock Farming Group and Chairman of farmers group. In addition to some members of the farmer's group receiving that loan to obtain data on the perceived impacts of Agribusiness Micro Finance Institution in rural areas. Secondary data were collected from both related agencies to determine farmers group which will be the object of this research. In addition, data from combined farmers group related to the description of members, loan amount, development of distribution of Agribusiness Micro Finance Institution and other data required in this study. Furthermore, the data were analyzed using descriptive statistical analysis. The effect of agribusiness microfinance institutions for beef cattle farmers is measured by the level of awareness of farmers to save, the involvement of group members in all of the group activities, ease of access to finance and in general in overcoming poverty in the rural area.

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### 3. Results and Discussion

#### 3.1. Description of Beef Cattle Farmers

The number of farmers analyzed in this study is 80 people. The number of selected farmers is based on the completeness of the data collected and can already be considered to represent each farmers group because of almost half of the farmers. The description of the beef cattle farmers is illustrated in Table 1.

Table 1. shows that the number of farmers group members in this study is almost the same, namely 40 and 30 people, respectively. In general, when viewed from the characteristics of the beef cattle farmers, shows that the majority of the age is in the productive age, which is an average of 45 years. The level of education is also quite high because the average has education up to high school that is 10 and 11 years. These conditions strongly support the ability of group members who influence their motivation in groups to joint in all of farmers group activities. The majority of farmers are also very experienced in livestock because on average they run their livestock business over 20 years. The family burden that is not too large will certainly support the willingness and ability of members to save their funds in agribusiness microfinance institutions.

#### 3.2. Description of Farmers Group Combination

Sinjai Regency has 80 units of a combination of farmers group that focus on the distribution of funds for food, horticulture, plantation, cattle and off farm activities. There is 11 unit which channeling funds for livestock activities from 80 farmers group combination in that area. The average farmer's group combination consists of several farmers group. Each farmers group of livestock consists of approximately 20 people. This shows that farmers' involvement in combined farmers group is considerable. Especially in Sipakainga, Patallassang Village, East Sinjai District, the number of members is 140 people (8 groups) and Biroro Village as many as 130 people.

**Table 1.** Description of Beef Cattle Farmers

Farmers Group	Beef cattle Farmers as a sample (people)	Beef Cattle Farmers Characteristics	Maximum	Minimum	Average
I (Patalassang Village)	42	Age (year)	69	20	45
		Education (year)	12	6	10
		Farm Experience (year)	40	3	28
		Family Burden (people)	10	2	4
II (Biroro Village)	38	Age (year)	66	25	43
		Education (year)	12	6	11
		Farm Experience (year)	41	3	30
		Family Burden (year)	9	3	4
Total	80				

### 3.3. Effect Agribusiness Micro Finance Institution on Beef Cattle Farmers

Microfinance institutions are generally needed to support economic activities in rural areas, especially to facilitate the financing of the beef cattle farmers. This is because most farmers face financing problems. After the existence of Agribusiness Micro Finance Institution then the perceived impact is:

#### 3.3.1. Awareness to save is increasing

This is reflected in the increasing number of principal savings and mandatory savings recorded in the combined farmer's group. Breeders set aside their money to be kept in Agribusiness Micro Finance Institution will then be lent to their needy members. This means that indirectly the involvement of members in depositing their funds in the form of principal savings and mandatory savings has helped and subsidized group members who need it. Deposit mandatory members of IDR 5.000,00 per month, principal, and voluntary savings depends on the ability of each member of the group.

#### 3.3.2. Awareness of members' involvement in groups

This is evident from the increasing number of groups belonging to the combination of farmers group, for example in Pattalassang village in 2018 the number of its members increased to 140 people (7 groups) which previously only 120 people (6 groups) and in Biroro village of 110 people increased to 130 people. The number of members every 20 people. This is because other groups see that after joining a combination of farmers group then there is the opportunity to get a loan even though relatively small funds in accordance with the needs of breeders. This condition has supported one of the targets of Rural Agribusiness Development Program in Agribusiness Micro Finance Institution is the development of farmer group owned and managed by farmers to become an economic institution.

#### 3.3.3. Provide access to capital more easily and quickly

Agribusiness Micro Finance Institution in rural areas provides an opportunity for any member of his group to obtain a loan. With a relatively low interest rate of 1.5% per year with a loan amount of 5-7 million per person, this can be utilized by group members to finance their needs in raising livestock. In addition to loans in the form of money, can also be in the form of cattle in accordance with the price if obtaining a loan in cash. The process of returning the funds is usually done if there are sales made by members of the group. If this is done continuously then the capital obstacles that have been complained about by the breeders can be overcome. Moreover, if it is viewed from the needs of its capital is relatively small so if it must obtain loans from banking institutions is not efficient because it takes a long time, relatively high opportunity costs, and administrative costs take substantial funds.

The presence of Agribusiness Micro Finance Institution in rural areas will accelerate and increase access capital of farmers in accordance with the needs and conditions of business activities undertaken. It confirmed [5] that some of the potentials played by MFIs in the context of rural economic development are dominated by the agricultural sector. First, MFIs are generally located or at least close to rural areas so they can be easily accessed by farmers/economic actors in the village. Second, the farmers/villagers prefer a short process and without much procedure. Third, the characteristics of farming generally require a credit limit that is not too large so that in accordance with the financial capability MFI. Fourth, the proximity of the farm location so that it can disburse credit in a timely manner and the right amount, and Fifth, the existence of socio-cultural linkage and the personal-emotional relationship is expected to reduce the moral hazard in credit repayment.

#### 3.3.4. Alleviation Poverty

Capital obtained from loans to Agribusiness Micro Finance Institution is commonly used by farmers to buy cattle so that the number of cattle ownership can increase. As the number of cattle raises increases, there will be an increase in income for farmers, thereby increasing their business capacity and reducing poverty levels for rural communities, especially beef cattle farmers. If this is sustainable then the objective of establishing Agribusiness Micro Finance Institution originally started from the Rural Agribusiness Development Program is in line with the government's expectation that is to

reduce the number of farmers in general. As the expected benefit and impact indicator of that program in accordance with Regulation of the Minister of Agriculture of the Republic of Indonesia No. 01/OT.140/1/2017 are: 1) the development of agribusiness in rural areas, 2) combined farmers group functioning as a farmer economic institution in rural areas owned and managed by farmers, and 3) reduced number of poor farmers in the rural area. Microfinance has thus become very strategic in poverty reduction strategies because of the recognition worldwide that conventional lending institutions do not provide avenues for the advancement of small and micro financial intermediation for micro enterprises and poor non collateralized rural dwellers [6]. [7] revealed that microfinance played a significant role in the economy, as it helped in reducing poverty by providing financial services to the economic active poor generating employment opportunities and also provide loans to grow small scale businesses. [8] showed that the average income of participating farmers in the study was higher than those of non participating farmers. The study also established that participating in the UNDP microfinance programme had a positive impact on the income and profit level of the farmers.

The empowerment of MFIs, including informal financing institutions, is the right step in alleviating poverty and developing the people's economy. Informal institutions are more flexible than formal institutions because they do not require complicated administrative procedures, are more accessible and usually based on the principle of trust because they already know each other between the debtor and the creditor such as relatives, neighbors, partners and other kinship relationships, can be obtained as soon as needed [9]. The availability of credit can motivate the community farmers to use and apply modern technologies, and procure inputs for farm use, thus leading them to a greater level of productivity and increasing and increasing their income [10].

#### 3.4. Barriers of Agribusiness Micro Finance Institution

Funds of Rural Agribusiness Development Program is the embryo of Agribusiness Micro Finance Institution formation by channeling funds of IDR 100,000,000.00 each combination of farmers group which is then distributed to groups that need the fund. Some Agribusiness Micro Finance Institution still survive and keep the practice of saving and loan to members of his group but it is not uncommon to find that some of the previously formed Agribusiness Micro Finance Institution are not running. Some of the barriers of Micro Finance Institution in the rural area were:

##### 3.4.1. The MFIs not supported by full member participation.

It can be illustrated that some members of the group only use Agribusiness Micro Finance Institution when they need funding. However, continuity in depositing mandatory savings and principal savings do not continue so as to reduce the ability of Agribusiness Micro Finance Institution in serving other members who need a loan. Therefore, group consciousness is necessary.

##### 3.4.2. There are some farmers not refund borrowed funds.

The cause is also diverse because they are experiencing calamities such as stolen or dead animals but there are also for reasons that are not clear.

##### 3.4.3. Commitment from the board of farmers group.

Not infrequently there are also unscrupulous administrators who do not distribute the existing funds in Agribusiness Micro Finance Institution in accordance with the allocation. For example, spend these funds to finance activities outside the cattle breeding business. This could be the cause of Agribusiness Micro Finance Institution is not sustainable. Therefore, it is necessary for the management of the group to have a sense of responsibility and good character so as to avoid the occurrence of such things.

## 4. Conclusion

The existence of an Agribusiness Microfinance Institution for beef cattle ranchers has increased awareness of breeders putting their funds aside for savings, group members increasingly involved in

group activities, have increased the accessibility of financing to beef cattle farmers quickly and easily because of their presence in rural areas and funds collected by and for members groups, and indirectly has alleviation of poverty in rural areas.

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