

Effectiveness of microfinance institutions: Perspective of beef cattle farmers in Sinjai District, South Sulawesi Province

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Effectiveness of microfinance institutions: Perspective of beef cattle farmers in Sinjai District, South Sulawesi Province

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Abstract. Microfinance institutions have been present in several countries as informal financial institutions to overcome the low access to formal financial institutions. The objectives of MFIs in Indonesia, as contained in Law No. 1 of 2013 on MFIs, are that they aim to improve community access to micro-scale finance, increase economic empowerment and community productivity, and improve the incomes and well-being of the community, particularly the poor and/or income earners low. This study aims to analyze the effectiveness of microfinance institutions for beef cattle farmers in South Sulawesi. This research is a descriptive study conducted on several MFIs in Sinjai district. The questionnaire as a research tool was used to collect data while still referring to the Covid-19 prevention protocol in the community. Also, the FGD was carried out in compliance with the distance and the limited number of people and made known virtually through online seminars. Data analysis with descriptive statistics. The results showed that the existence of MFIs in rural areas was considered effective as breeders had easy access to finance without collateral, increased participation of MFI members and their involvement in various activities in rural areas, and increased livestock ownership and income generation of the breeders.

1. Introduction

Livestock plays a strategic role in the agricultural sector in Indonesia. One of the commodities that play a role is cattle. This is due to the population growth, which tends to increase, while on the one hand, beef production tends to fluctuate from 2015 to 2019. Beef and buffalo are strategic raw materials alongside rice, corn, soybeans, chilies, onions, and sugar cane.

The government has implemented several programs to increase animal populations and establish livestock farms. Special Efforts for Compulsory Pregnant Cows (UPSUS SIWAB) established by Regulation of the Minister of Agriculture No.48/Permentan/PK.210/ 10/2016 relating to special efforts to accelerate the populations of pregnant cattle and buffalo [1]. The UPSUS SIWAB guarantees that productive cattle/buffalo belonging to breeders are paired either through artificial insemination (IB) or through intensification of natural mating (INKA). The program aims to increase the national cattle population with an indicator of an increase in the number of calf births at the end of the program period. Also, by the decree of the Minister of Agriculture of the Republic of Indonesia, the government has provided number 12/KPTS/PK.240/B/04/2017 for amendments to the guidelines for premium support for



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livestock farm number 02/KPTS/SR.220/8/01/2017. This program is designed to cover the risk of losses suffered by farmers because their cattle have died from disease and during childbirth, theft, or disaster. The government has also provided loans to secure food and energy, and what's still going on in the People's Business Credit, the interest of which is subsidized by the government. All of these programs and funding are designed to promote and create a better business climate in the livestock sector.

So far the barriers for breeders, including the low level of capital ownership, while access to finance informal financial institutions is still relatively low. Many determinants are collateral requirements, lengthy procedures, interest rates, little information on funding sources, and the location of farmers who are relatively distant from formal financial institutions. Hence, the presence of microfinance institutions in rural areas is a solution to funding constraints.

The Asian Development Bank (ADB) defines an MF as an institution that provides deposit services, loans (loans), payments for various transaction services (payment services), and money transfers to poor and small entrepreneurs. Act No. 1 of 2013 and the Agricultural Finance Directorate [2] for Microfinance Institutions define a financial institution specifically set up to provide business development and community strengthening services, either through loans or through micro-business financing to members and the community, through savings management and providing business development advice that is not just profit-oriented. Although the funds that can be distributed to members are relatively small, this has helped farmers fund their business needs. This article aims to find out how the effectiveness of microfinance institutions is viewed from the perspective of beef cattle farmers in Sinjai district, South Sulawesi Province.

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2. Materials and methods

Research site in Sinjai district, South Sulawesi. One of the considerations when choosing a location in the region is that the number of cattle is relatively large, fourth place after Bone, Gowa, and Wajo districts. There are still several MFIs in this area today. The researchers in this study are 64 beef cattle farmers who were members of the Micro Finance Institution from 5 different MFIs. When the investigation was carried out from April to September 2020, which was still during the Covid 19 pandemic, the data was collected using a questionnaire in the form of a Google Form. This activity continued in the form of an online seminar attended by cattle farmers who are also members of LKM, agricultural and livestock workers, and related agencies to provide additional information on the effectiveness of the MFI. The data were analyzed descriptively. Data to assess the effectiveness of MFIs by the farmer use the Likert scale as follows:

- 5 = very effective
- 4 = effective
- 3 = neutral
- 2 = not effective
- 1 = very ineffective

The total value can be continuously displayed based on the following criteria:

- Highest score: highest number x number of respondents
- Lowest score: the lowest number x the number of respondents

The lowest and highest scores are further broken down into 5 categories. The determination of the category depends on the value obtained from the respondent's answer

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3. Results and discussion

The results of the research resulting from the respondents' statements on the effectiveness of microfinance institutions are shown in table 1.

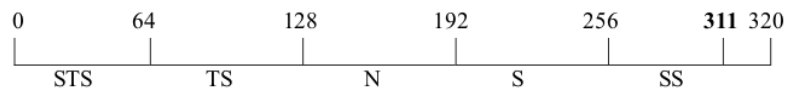
Table 1. Results of the summary of the effectiveness of the MFIs

Question Code	Description	Total Score	Category
A	1 LKM is easily accessible	318	Very effective
	2 Easy loan process	315	Very effective
	3 The location is not far	313	Very effective
	4 The requirements for membership are simple	320	Very effective
	5 No guarantee required	317	Very effective
B	6 MFIs increase membership participation	310	Very effective
	7 LKM encourages farmers to become members	294	Very effective
	8 MFIs increase economic activity in the village	309	Very effective
C	9 Savings and credit activities are increasing	314	Very effective
	10 LKM encourages farmers to start saving	313	Very effective
D	11 Increase the number of cattle	304	Very effective
	12 MFIs can help increase animal productivity	296	Very effective
	13 The MFI can increase the income from the sale of cattle	316	Very effective
E	14 MFI can cover the necessary production costs	309	Very effective
	15 MFIs can increase farmers' net income	314	Very effective
Total		4662	Very effective
Average/Mean		311	Very effective

Primary Data Analysis, 2020

The total value can be continuously displayed based on the following criteria:

- Highest score : $5 \times 64 = 320$
- Lowest score : $1 \times 64 = 64$



- Very Ineffective : 0 – 64
- Not effective : 65 – 128
- Neutral : 129 – 192
- Effective : 193 – 256
- Very effective : 257 – 320

The total score from the respondents' rating was 4,662 with an average score of 311. This score falls into a very effective category as it is in the range of 257 – 320. From each statement, it is clear that the requirement to join an MFI with a score of 320 is simple. This shows that the presence of MFIs in rural areas is very effective as it does not make it difficult for potential members to join. To become a member, it is enough just to fill out the registration form for prospective members, pay mandatory savings and capital savings, which are relatively small amounts agreed by all members.

Table 1 also shows that the other highest score is the statement about the MFI that is easily accessible, namely 318, borrowing from the MFI does not require collateral, namely 317, and the existence of the MFI can increase acceptance and increase sales of cattle with a value of 316 Easy access to the MFI is due to its location in rural areas and being close to where the growers live in the area so there is no need to visit the LKM office. The location is also on the axle road so that it can be easily reached by any vehicle. This is in line with Martowijoyo [3] that one that affects the MFI's performance is the location of the MFI and its clients. Borrowing funds from MFIs that do not require collateral is also seen as very effective.

Generally, farmers do not have the collateral required by formal funding institutions. Hence, this factor is also crucial for farmers to access formal finance. The existence of MFIs as a financing alternative that does not place any requirements on collateral, but only has trust capital in its members, means that these MFIs are effective. According to Krisnamurti [4], MFIs are usually only based on the principle of trust, as they already know each other between debtors and creditors such as relatives, neighbors, work partners, and other family relationships, so that the required funds can be raised immediately as needed. This is in line with Asnawi [5] that one of the determinants of access for breeders to finance informal institutions, along with long and time-consuming procedural factors and a lack of information on funding, is collateral. Hyz [6] notes that several barriers to accessing credit at banks are high-interest rates, collateral requirements required by banks, procedures, and long periods of time-related to loan proposals.

Farmers also said that MFIs are very effective because they can help increase income and sales of livestock. This is because the funds received from the MFIs farmers are then used to purchase necessities such as feed, vitamins, and medicines, as well as repairs to cages. Of course, this will have an impact on the improvement in the quality of the cows produced, so the gain in body weight will tend to be faster and increase. This weight gain will affect the selling price of the internal, which also tends to increase. This condition is consistent with Asnawi et al [7] The existence of microfinance institutions in rural areas has had an impact on increasing the number of animals kept and the income of breeders. It was also stated that the existence of MFIs in rural areas can help farmers improve their wellbeing with the facilities received through business loans. Access to finance through MFIs enables farmers to obtain loans from formal financial institutions in the form of program loans and business loans. In addition to banking, access to finance can also come through grants and government support.

The existence of MFIs is believed to have helped breeders meet the need for production costs, although the amount is relatively small. The minimum requirement for this amount of capital is based on the fact that the number of pet owners is generally small, namely 2-3 pieces per household. Therefore, under the terms of our breeders, MFIs are very effective as they can provide loans according to their relatively low working capital needs. Syukur [8] also explains that almost 90% of independent farmers use their capital to finance their farms. Also, breeders generally need loans that are not too high, that is, only for repairs to their barrels, when those who care for them intensely buy feed and increase the number of animals they raise.

Participation and involvement of members in MFIs is considered effective as it has an increasing trend. This is in line with Alemayehu [9]. The participation of members is reflected in the number of members, which tends to increase, so the amount of savings, both mandatory savings, and capital savings must also increase. This will of course have an impact on increasing the number of funds available in the MFI so that members who receive credit will have greater opportunities. Microfinance is very important for smallholder development as it provides much-needed financial support, as Munyoro and Chirimba [10] found. This is also in line with Munyoro [11] report on rural and smallholder farmers whom they reported are underfunded/under-capitalized and often considered by banks as too risky, thus bringing forth the significance of microfinance institutions to smallholder cattle farmers.

4. Conclusion

MFIs in rural areas are considered to be very effective as breeders can easily access funds without collateral, increase MFI membership and involvement in various activities in rural areas, and have an impact on livestock ownership and increased income for breeders.

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