

# Agricultural Financing Model in Jambi Province

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## ABSTRACT

Agricultural financing is one of seven agricultural revitalization policies. From agricultural revitalization planned, agricultural financing is crucial problem whereby food crop is the most difficult subsector to access financing source. food crop financing pattern in Indonesia closely linked by the enhancement of food production. Smallholder's production to self-consumption only, in so doing, when the farmers start planting food crop in next period, the farmers find it difficult to finance it. Limitation to access financing source caused by farmers relatively low education, then the farmers do not have guarantee. Food crop smallholder condition in Jambi is not much different with national. The pattern of financing smallholder food crop in rural area still faces some problems. The problem of financing food crop smallholder in rural area needs to be solved. Analysis method used in this research is qualitative, by reviewing effective financing model. Model comprises characteristics of financing model for smallholders in rural area, such as Supply Leading Finance Flow and Demand Leading Finance Flow. But the result shows these financial patterns have not succeeded to be applied yet.

**Keywords:** agricultural, financing model, Indonesia

## 1. INTRODUCTION

Upon review food crop agricultural financing model are important and strategic. First, food crop agricultural is a considerable sector that absorbs job workforce in Indonesia (Nuswantara, 2006). According to Statistics Bureau (2000) showed that agricultural sector had been absorbed 45,28% totally workforce in Indonesia. In which considerable amount came from food crop smallholder, to wit 71% with the land tenure less than 0,5% (Sayogyo, 2002; Taryoto, 1992). Second, food crop is Indonesian staple food, it means the availability of food is vital for food security. If food production is not insufficient, then import must be conducted. Third, food crop agricultural is considerable for economic sector. When industry and financial services sector experiencing economic downturns by crisis, food crop agricultural tends to be stable. Then, there is a shift from agricultural to

non-agricultural sector. Fourth, the importance of food crop agricultural financing in Indonesia. Agricultural financing is one of seven agricultural revitalization policies (Sayuti, 2006). From agricultural revitalization planned, agricultural financing was crucial problem (Iqbal and Valerina, 2006) whereby food crop was the most difficult subsector to access financing source (Ashari and Supena, 2006). Fifth, food crop financing pattern in Indonesia closely linked by the enhancement of food production. Smallholder's production to self-consumption only, in so doing, when the farmers start planting food crop in next period, the farmers find it difficult to finance it. Limitation to access financing source caused by farmers relatively low education, then the farmers do not have guarantee (Ashari and Supena, 2006).

Food crop smallholder condition in Jambi is not much different with national. Even though land area reached out 133.868 Hectares only

(Statistics Bureau, 2018), but the pattern of financing smallholder food crop in rural area still faces some problems. Ranging from small absorptive capacity in rural areas toward various financing program, until the low rate of return with various forms of financing pattern, so that various forms of financing pattern have not been effective of food crop smallholder in rural area. The problem of financing food crop smallholder in rural area needs to be solved.

**2. METHODS**

Jambi Province is accidentally selected as research location due to relatively considerable amount of informal financing institutions (for instance: rice mill) that financing food crop. This research carried out in 3 (three) steps. First, collecting secondary data that is useful to see entire population observed. Secondary data comprises number of village population, it is determined a sample as much as 5 (five) smallholders in each financing model’s user, then livelihood of patriarch, and land tenure. Second step, collecting primary data comprises income of patriarch, financing model that is useful to its food crop, prerequisites that must be met by smallholders to achieve financing pattern in accordance with their wishes. Final step through interview.

Primary data carried out in 2 (two) villages, they are Gedong Karya in Kumpeh District and Simbur Naik in Sabak Timur District. These locations considered become field research due to these locations have been applied some

financing patterns consist of leading finance, viz 1) family prosperity credit 2) family health and nutrition pattern, 3) program initiative of family income 4) credit pattern to strengthen local community.

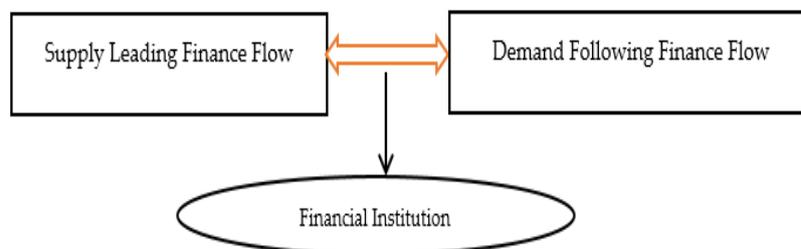
Furthermore, demand following finance, viz. 1) financing pattern from rice mill, 2) financing pattern from middleman, 3) financing pattern from landowner, 4) *Julo-julo* (as like regular social gathering), 5) financing pattern of loan, 6) farm credit.

Secondary data is obtained from statistics bureau, Bank of Indonesia, and others. Meanwhile, primary data comprises land area, amount of production, applicable financing model, farmer’s expectation to financing model, and constraints.

Analysis method used in this research is qualitative, by reviewing effective financing model. Model comprises characteristics of financing model for smallholders in rural area.

**3. RESULTS AND DISCUSSION**

Agricultural for financing model can be analyzed from 2 (two) viewpoints, such as Supply Leading Finance Flow and Demand Following Finance Flow. But, these models have been succeeding yet applied in these villages due to these areas have not produced maximum yield. One of factors is uncertain weather conditions.



Supply leading finance Supply leading theory wants government intervention to overcome the

problem of financing for small farmers in rural areas (Sayogyo 2003; 1-5, Muhyarto 2003; 1-11,

Robinson, 1983; 85-108) because this concept considers small farmers in rural areas unable to overcome the problem of financing needs that they need. So that government intervention is needed in the form of financing provided subsidized loan interest and protection of agricultural products from the competition with outsiders.

The theory of supply leading finance states that several funds must be available to be able increasing production of food crops. The government must implement a policy of protection for small farmers against the market influence and provide interest subsidies to farmers who need financing from existing financial institutions (Mears, Leon, and Moeljono, 1998; 23-61).

Myriad agricultural development experts state that this supply leading finance approach is very suitable to be applied in Indonesia because small farmers in rural areas are not profit-oriented (Sadli, 1991; 6; Mubyarto and Santoso, 2003: 2) because farmers in rural areas are small farmers the poor (Sajogyo, 2002,1). Robinson (1993: 87) believes in the success of the concept of supply leading finance, due to government interference in the agricultural finance market in rural areas. Small farmers in rural areas who receive financing patterns will be able to increase their production results. with increased production, the farmer will automatically increase his income. Increased production in rural areas is a measure of the success of leading finance supply patterns.

The concept of leading finance supply has many weaknesses, so many experts believe that the concept is less effective in using agricultural finance (Rosenblum, 1983: 167-179, Simatupang, 1992: 12 and Arifin, m 2006; 3-6). The weaknesses are the first, very high dependence on the government. So that if the government does not allocate funds for the financing program, then the production increase will fail. Secondly, the creativity of small farmers is very low, so that it requires continuous assistance. Third, oriented

towards product improvement, so an increase in the use of inputs is very high. With the many criticisms and weaknesses of the concept of supply leading finance, the concept of demand following finance emerged.

The many weaknesses that are owned in the concept of financing leading supply finance, cause criticism from agricultural finance experts. Simatupang (2003; 1-3) states the use of this concept in overcoming the financing needs of small farmers for external products because it relies heavily on subsidies and protection so the products produced are not competitive in the global market. Of the various weaknesses of supply leading finance, the concept of demand following finance emerges.

On the contrary, *Demand Following Theory*, want the government not to be involved in agricultural financing issues (Simatupang, 2003; 1-5, Penny, 1983, 31-56, Cawley, 1984, 188-201). because government involvement causes low levels of competition for agricultural products. according to this theory, small farmers in rural areas can overcome the funding problems themselves. because the farmer has assets in the form of gold jewelry, pet cattle, and others that can be used for capital needs.

The Demand following finance theory states that farmers generally have excess funds. This condition is reflected in the number of farmers who have excess funds at home in the form of cash funds, gold jewelry, deposits in the form of rice or rice, and others. therefore financial institutions that are among farmers should only function as intermediaries between farmers who are overfunded with crops that need funding for agricultural operations (Penny, 1983; 58-66). So that financial institutions or the government does not need to subsidize interest to farmers who need financing.

The concept of Demand following finance has been criticized by experts in agricultural finance in Indonesia. Sayogo (2003: 1-5) states that the concept of Demand following finance is difficult

to apply to small farmers in rural areas. because farming for small farmers is a lifestyle, not for commercialization. most of the smallholder farmers' crop production in Indonesia is only to fulfill their daily needs, so only a small portion is sold to market. so that financing suitable for small farmers is not from commercially oriented financing institutions, as desired by the concept of demand following finance. Mubyarto (2003; 2-5) criticized the concept of demand following finance for small farmers in rural areas. Because the basis for the development of loans from financial institutions is the feasibility of loan proposals.

From the two proposed financing concepts, it can be seen that both of them have not succeeded in overcoming the problem of financing for rural smallholders. The concept of supply leading finance and demand following finance has not yet been successful, because these two concepts have several weaknesses. The weaknesses of the two financing concepts can be used to describe the cause of the failure to overcome the problem of financing for rural smallholders.

#### 4. CONCLUSION

Supply leading finance flow and Demand following finance flow have not succeeded to be applied due to financial system. It is caused these villages have not given maximum yield. One of factors come from uncertain weather. Furthermore, Islamic Banking Institution is preferable caused of *Mudharabah* and *Musyarakah* concepts. The choice of these two types of financing products is because the two types are the same constitutes financing in the form of equity participation based on the profit sharing principle.

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