IMPROVING LIVING STANDARDS OF SMALL PRODUCERS IN LOMBOK INDONESIA: ENTERPRENEURSHIP CAN BE THE KEY

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ABSTRACT

There were indications of failure of Indonesia's agricultural credit program in terms of its inability to increase agricultural production, farmers' income, and repayment level.

This paper analyses the impact of credit provision on farming activities and proposes strategies for improving livelihood of agricultural producers in Lombok, Indonesia. The analysis is based on two periods of survey conducted in Central Lombok, where the current KKP government credit scheme is provided to agricultural producers. Three villages within the regency were sampled, representing various repayment rates of government credit. Data were collected using face-to-face, semi-structured interviews with farmers who had made use of government or other sources of agricultural credit, and with key informants.

This study confirmed that credit used by farmers in Lombok had little noticeable impact on increasing agricultural production (11%) and on income (5%). This marginal impact of credit use may be related to the current credit provision system in which credit is made available in limited amounts and intended for a single purpose.

The repayment levels of individual farmers were quite satisfactory, in the sense that the majority of farmers have repaid their loans in full. However, their reasons for repayment were not directly related to the levels of income they earned. Rather, farmers made credit repayments for reasons for maintaining eligibility for future credit distribution, borrowers' positive personality (especially to avoid embarrassment), and providers' collection efforts.

The little noticeable impact of credit, and farmers' reasons for making credit repayment, point to the need for the current system to be altered, to allow for provision of larger amounts and for multiple purposes. This move requires equipping farmers with entrepreneurship ability so that they can seek and make use of business opportunities. There is a need for education and extension programs that focus on identifying business opportunities on which credit may be used more profitably in the long term rather than just for short term seasonal survival as well as on how to run the identified businesses properly and profitably. This knowledge may help farmers to improve their living standards and allow credit provision to have a more significant impact than the current system.

Key words: agricultural credit, credit impact, entrepreneurship, Lombok, Indonesia

INTRODUCTION

Agriculture has been the leading sector of economic development in Indonesia since its independence (Booth 1988; Piggot et al. 1993; Sunderlin et al. 2001; Booth 2003). The Government has put policies in place in order to increase agricultural production and farmers' living standard. One of the policies is to provide credit in substantially increased amounts each year

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(Table 1). As an indication of successful implementation of the program, credit users are also expected to be able repay their borrowings.

Table 1. Nominal value of farm credit provision in Indonesia, 1995/1996 – 1999/2000

Year	Amount of credit (IDR 000,000,000)
1995/1996	202.5
1. 1996/1997	229.9
2. 1997/1998	374.0
3. 1998/1999	7,000.0
4. 1999/2000	8,090.0

Source: Kompas (2000b; 2000d). Note: AUD 1 = IDR 5,000 (during 1999/2000)

Empirical data indicated that these three objectives of credit provision were frequently unattainable. For example, rice production (the main targeted production) dropped from 51.1 million tons in 1996/1997 when farm credit provided was only IDR 200 billion to 48.7 million tons in 1998/1999 when farm credit reached IDR 7 trillion (Kompas 2000b). The provision of farm credit was also reported not to increase farmers' income (Kompas 2000a), albeit quantitative figures were unavailable. Furthermore, some reports suggest that a significant amount of the credit was not repaid, and the amounts in arrears tended to increase as years proceeded. In the 1970s there was about 80% repayment nationally (Kompas 2000f; 2001), whereas in 1998-2000 the repayment rate was only about 30% (Kompas 2000e; 2000f).

This paper reports the impact of credit provision on the livelihood agricultural producers in Lombok, Indonesia, and suggests some strategies for improving the living standards of the farmers as credit users. It is drawn from doctoral studies into farmer decision making on credit use in Indonesia.

METHODS

The study was conducted within an overarching research philosophy of constructivism that was essentially qualitative, although quantitative aspects were included. Data used in this paper were sourced from two periods of fieldwork in Lombok, Indonesia. The first fieldwork was conducted during July 2001 – March 2002, when in-depth, semi-structured interviews were conducted with 65 farmers using credit and other key informants. Specific questions as to the relationships of agricultural credit to farmers were selected. Credit use decision models were developed. The second fieldwork was conducted during December 2003–January 2004, to test and validate the decision models with 139 farmers and to collect information deemed necessary to complement and clarify information collected in the first fieldwork. In-depth interviewswith 38 farmers and some key informants were also conducted. More details of this study are described in Sjah et al. (2003c) and Sjah (2005).

RESULTS

Results of investigation reported here included the characteristics of credit users, impacts of credit use, and farmers' ideas on their livelihood.

Characteristics of credit users

Characteristics of agricultural producers who made use of credit for their farming activities were described in Sjah et al. (2004), and are summarised here.

Farmer respondents were 40 years old on average, ranging from 20 to 60 years. All of them could physically work on their farms, with average farming experience of 20 years. Farming experience increased with age. Almost all respondents spent all of their adult lives on farming

activities. Nearly half of the farmer respondents had either no formal schooling or had not completed elementary school (up to grade 5), and could be categorised as functionally illiterate.

Virtually all farmer respondents were married to form a minimum family size of two persons, and most of them had children, which brought the average family size to four persons. In the farming community, the head of the family (husband) is the main and permanent workforce for the family with wives and children sometimes helping to generate income. Average working members was two persons per family. There were 54 out of 65 households whose members earned supplementary income from activities not on their own farms.

Average income of farmer respondents was over IDR 5 million (over AUD 1,000), with 65% contributed by farming income, and the rest by activities such as trading, labouring at building development, home industries, and office work. Most respondents (77%) stated that this income was just adequate for family consumption, with nothing left to save or invest. Farmer respondents also admitted that they have been dependent on the use of credit, either from government or private sources, for their farming activities. Farmer respondents rarely made use of banks, chiefly because of the lack of income to save.

The level of income generated was determined by the small average farm size (0.69 ha). Three farmers also owned other land used for many kinds of perennial tree crops.

Credit has marginal impact on agricultural production and farmers' income

Agricultural producers can access credit from government and private sources. The government of Indonesia has provided many schemes specifically for farmers. Currently the main agricultural credit scheme is the 'Food Sufficiency Credit' (Kredit Ketahanan Pangan, KKP), which has been nationally distributed since October 2000 and replaced the 'Farm Credit' scheme (Kompas 2000c; Rahardjo 2000). The repayment of loans from this was still continuing definitely. In addition, limited numbers of farmers in some rural areas had also obtained government credit provided through the Department of Agriculture (the 'Food Sufficiency Program', 'Program Ketahanan Pangan', PKP), and through the 'Management Unit of Monetary Village', 'Unit Pengelola Keuangan Desa', UPKD). Producers, who could not access credit from government, sought borrowings from private sources, although they have to pay higher than government interest rates, in order to continue their farming activities. In all government schemes, farmers could only obtain, on average, 49% of the credit amount they desired to take, while private sources could fulfil almost all amounts farmers applied.

Unlike credit provided by private sources, the main features of government schemes are that they are subsidised, lent to groups and provided according to cropping seasons (MacIntyre 1993; Thorbecke & Van Der Pluijm 1993; Suyatno et al. 1999). While considered suitable for farmers with low levels of literacy, these features of credit provision have some weaknesses, which lead to low impact on credit use.

The impact of credit use was evaluated in terms of increase in agricultural productivity and farmers' earning, and was based on farmers' own assessment. It was found that the use of credit has a marginal impact on farming livelihood. Credit use could increase agricultural production by 11% and farmers' income by 5%. The distribution of this impact by farmers is reported in Sjah et al. (2003b). According to farmer respondents, the greater role of credit they received was in sustaining their farming activities and thus their livelihood rather than in improving their living standards. This, by implication, means that farmers did not access credit for economic rationality to improve business performance but did so for short term tactical survival.

The little noticeable impact of credit led to lack of capacity to making repayments of loans. As reported in Sjah et al. (2003b), except for the KUT, repayments of loans by individual farm-

ers were generally high for most of the schemes, with majority of farmers have repaid in full. However, an analysis from data for decision making models indicates that farmers' reasons for making repayments were not directly related to their levels of income. Rather, repayments were made for reasons for maintaining eligibility for future credit distribution, farmer's positive personality (especially to avoid embarrassment), and collection efforts implemented by credit providers. Nevertheless, insufficient Income or financial capability was farmers' primary reason mentioned when they did not meet their debt obligations. More detailed reasons for or against making loan repayments were discussed in Sjah et al. (2003a).

Farmers' idea on improving living standard

Interviews in the first fieldwork revealed that the majority of farmer respondents indicated no perceived need to take any training. However, they had some realistic ideas to improve their living standards (Table 2). The dominant strategies considered by farmer respondents included: work hard; run many businesses; find other work along with farming; and run trading businesses.

Table 2. Strategies for living improvement suggested by farmer respondents

	Strategies	Number of respondents	
		(n)	(%)
1.	Work hard	17	26
2.	Run many businesses	11	17
3.	Find extra work along with farming	9	13
4.	Do trading business	8	12
5.	Provide more capital	5	8
6.	Apply new technology on farm	4	6
7.	Increase farm product prices	2	3
8.	Intensify farming activities	2	3
9.	Secure adequate water supply	1	2
10.	Extension workers to find a way for production improvement	1	2
11.	No idea	5	8
Total		65	100

The term 'working hard' meant not only to do the best on their own farm but also to work in other places including in off-farm jobs such that there would be additional income for the families. An example of working hard on the farm itself could be to implement better crop maintenance to produce a higher yield. Running many businesses was seen to provide more chances for increasing earnings. Similar to this is to find extra work of any kind, along with farming. Specifically, running a trading business was cited as having many examples of successful people in the community.

All of these dominant strategies proposed by farmers indicated the importance of creating job opportunities outside farming. Given the poor condition of most farmers, these strategies would be likely to work if those farmers were provided with credit for their investment. Indeed, some farmers recommended this credit provision should be sufficiently large (strategy number 5) so that it can have a significant positive impact on businesses that farmers run.

In contrast to off-farm jobs, only a few farmer respondents consciously proposed something to do on their farms in order to improve their living. This may be due to the routines of agricultural practices, or little hope of gaining a better life through farming. Agriculture routinely demands increasing production (through new technology application, farm intensification, securing adequate supply of irrigation water, and finding a breakthrough by extension workers)

and improving crop prices. These strategies of increasing agricultural production and product prices are well known and farmers have tried their best (particularly to do the former strategy), yet there has been not much improvement in their life from farming. For this reason and observable hard work in farming, it was found in the second fieldwork that virtually all farmers did not wish their children to take the same profession as their parents.

Another finding from the second fieldwork conducted was that few farmers know precisely how to graduate from poverty. However, they could suggest how income can be improved slightly. Running a business was certainly recognised as a way of improving a family income (11 responses). Some people were cited as having become rich through running a business. The same number of responses advocated obtaining additional family income from labouring on other people's farms. Then, having bigger farms would be a way out of current levels of living standards (8 responses). This was followed by working at building sites (6 responses), working overseas (5 responses), raising livestock (4 responses), having more assets (2 responses), having more jobs (2 responses), and lending money to other people (1 response).

No matter what other ideas farmers had about agriculture and living standards, all 17 respondents, who were able to provide information on this issue when interviewed in the second fieldwork, believed that farmers should not leave agriculture. Agriculture has been farmers' traditional occupation and their main expertise. Most farmers did not have any other qualification to engage in other jobs. However, respondents suggested that in order to have a better standard of living, farmers should not rely only on their current farms. Family farms needed an additional income to supplement earnings from the farm. In this second fieldwork, identified sources of additional income included running businesses (5 responses), labouring at other people's farms (4 responses), raising livestock (3 responses), working overseas (3 responses), having a bigger farm than the current (2 responses), having other jobs (2 responses), working at building development sites (1 response), and lending money to other people (1 response). Extension officers servicing the surveyed villages also suggested that running a business or trading was an area where farmers could earn additional income for their families, as well as labouring on other people's farms. Another suggestion from extension officers was to have bigger farms so that more income could be earned.

Indeed, bigger farms were considered better than smaller farms by almost all farmers (15 responses versus two). This is simply because bigger farms could produce more and thus normally generate more income, which is better for farmers. In contrast, two farmers perceived that smaller farms were better than bigger farms, as they believed that farmers with smaller farms would manage and work their farms more efficiently than bigger farms. Some farmers with bigger farms were observed to leave part of their farms neglected.

Although farmers have some realistic ideas for trying to improve their living standard, their poor condition has impeded them in generating income. They have ideas of running businesses, extending farms or other assets, raising livestock, or working overseas. All of these business activities require substantial capital in order for them to get started. Credit is expected to play a significant role in helping poor farmers.

DISCUSSION

Results presented above point to the need of finding a better strategy to improve living standard of agricultural producers through the use of credit.

While some farmers' ideas for the improvement of their living standards were recorded, many farmers did not have ideas at all. Even among those proposed, some ideas such as working hard, were not very promising. This is in effect looking for a job but not creating it. It can

also be said that the farmers' problem is that they do not know that they have a problem, when many of them stated no needing for training in their life. The farmers' problems could relate to their low levels of education, lack of assets, or others as described in the section of farmers' characteristics. It also appears that farmers have limited access to working capital and to information.

Furthermore, the current government policy of credit provision to farmers is seen to have limited effectiveness. It appears to trap farmers into debt dependence situations, without being able to graduate from poverty. This may have connection to little amount of credit provision, as well as inflexible, sectoral single purpose of credit provision. It is proposed, based on the current impact of credit use, to extend credit provision so that it can be available in larger amounts and be allowed to be integrally used in not only farming activities but also other promising ones.

This follows that farmers need to be equipped with entrepreneurship ability so that they can seek and make use of business opportunities. There needs to be education and extension program that focus on identifying business opportunities, on which credit may be used more profitably in the long term rather than just for short term seasonal survival. Opportunities may exist in activities on-and off-farm or in combination of these.

Following the search for possible activities to be run, either with or without farming, there should be education and extension on how to run the identified businesses properly and profitably. The training here may include technical skills, management (such as benefit cost analysis and record keeping), and marketing of products. This knowledge may help farmers in running businesses and making use of credit for profit in the long term rather than for surviving in the short term, and therefore credit provision may have a more significant impact on farmers' livelihood than current system of credit provision.

CONCLUSION

Although government has increased its commitment to provide more credit to agricultural producers, its stated national goals of increasing production and farmers income as well loan repayment were not always achievable. This study confirmed that credit used by farmers in Lombok had a little noticeable impact on increasing agricultural production (11%) and on income (5%). This marginal impact of credit use may be related to the current credit provision system in which credit is made available in limited amounts and intended for a single purpose (i.e. farming only).

The repayment levels of individual farmers were quite satisfactory, in the sense that the majority of farmers have repaid their loans in full. However, their reasons for repayment were not directly related to the levels of income they earned. Rather, farmers made credit repayments for reasons for maintaining eligibility for future credit distribution, borrowers' positive personality (especially to avoid embarrassment), and providers' collection efforts.

The little noticeable impact of credit and those reasons for making credit repayment point to the need for the current system to be altered to allow for larger amounts, multiple purposes and longer terms so that more significant impact may be obtained. The current approach to lending that is strictly limited to provision of seasonal finance for crop production tends to trap farmers in an annual survival cycle. There is no provision for capital expansion through farm build-up or diversification of enterprises.

There were mixed ideas from some farmers on how they can improve their livelihood. These ideas included running many businesses, finding work in addition to farming, and having more working capital, among others. However, some farmers did not have ideas at all, or were unaware of having problems when stating they had no need of training in their current

situation. This situation requires equipping farmers with entrepreneurship ability so that they can seek and make use of business opportunities. Education and extension programs that focus on identifying business opportunities, on which credit may be used more profitably in the long term rather than just for short term seasonal survival, are needed. This is followed by education and extension on how to run the identified businesses properly and profitably, and this training may include technical skills, management (such as benefit cost analysis and record keeping), and marketing of products. This knowledge may help farmers improving their living standards and by which credit provision may have a more significant impact than the current system.

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