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FACTORS CONTRIBUTING TO THE PERFORMANCE OF AGRICULTURAL CREDIT IN LOMBOK INDONESIA

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Abstract

In Indonesia, national historical records show increasing agricultural credit provision by government, yet farmers seem to be unable to escape poverty. In addition, the repayment of credit has tended to be lower as years proceed.

This paper analyses the performance of credit in terms of agricultural production, farmers' earnings, and credit repayment, and factors contributing to the performance. The analysis is based upon a 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 65 farmers who had made use of government or other sources of agricultural credit.

Studies of individual farmers making use of credit in the surveyed area indicated that credit had a small impact on agricultural production and farmers' income. About half of the farmers reported that credit did not help. The other half of farmers experienced a positive impact of credit through intensification and timely husbandry application. There was a varying repayment rate by individual credit users, which reflected farmers' capability, character, and motivations.

Key words: agricultural credit, credit performance, Lombok, Indonesia

Introduction

In light of the belief that the majority of Indonesian farmers experience a lack of capital to practice good husbandry in their farming activities, much credit has been provided to farmers through government schemes nation wide. Agricultural credit has been provided by government in substantially increased amounts each year (Table 1). The various schemes involved are aimed at increasing agricultural production (particularly rice) as well as farmers' income. Implicit in these two goals is the expectation that agricultural producers must be able to return the borrowing, as an indication of the usefulness of credit application to business activities.

Indonesian experience has shown that the provision of agricultural credit has not improved agricultural production or farmers' incomes. As an indication, rice production dropped from 51.1 million tons in 1996/1997 (when farm credit provided was only Rp 200 billion) to 48.7 million tons in 1998/1999 (when farm credit reached Rp 7 trillion) (Kompas, 20 March 2000). It appears that farmers' income has also not improved (Kompas, 25 July 2000). 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, 12 September 2000; 26 January 2001), whereas in 1998-2000 the repayment rate was only about 30% (Kompas, 22 August 2000; 12 September 2000).

This paper analyses the impact of credit provision for agricultural producers in Lombok, Indonesia, on agricultural yields and farmers' earnings. It also measures credit performance in term of repayment rate. Factors contributing to the levels of agricultural production, farmers' income, and credit repayments are examined.

Data for analysing credit performance were sourced from a survey conducted with 65 farmer respondents sampled from three villages within three districts in Central Lombok. More detailed conduct of the investigation is described in Sjah *et al.* (2003).

Impact of credit on agricultural production and farmers' income

Many government credit schemes have been provided to agricultural producers for the purposes of increasing production and farmers' income. The main agricultural credit scheme operating in 2002 was the 'Food Sufficiency Credit' (*Kredit Ketahanan Pangan, KKP*). It had been nationally distributed since October 2000 (Kompas, 21 August 2000; Rahardjo 2000) to replace the 'Farm Credit' scheme (*Kredit Usaha Tani, KUT*). Whilst executing banks decided on the recipients of the KKP credit, the KUT clients were decided by the government Departments of Agriculture and Cooperatives. In 2002, the government was still collecting repayments of KUT from farmers throughout the whole country.

A smaller 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*). The KKP and KUT schemes charged one percent interest per month and were distributed to farmers owning farms of less than 2 ha (but in practice excluded those having less than 0.5 ha), the PKP charged 1.5-2% per month (depending on the group management decision) and was provided to those with land of no more than 0.5 ha. The UPKD scheme applied two percent interest per month, and had general clients, including other non-agricultural enterprises. In addition to government credit, farmers could also obtain credit from private sources, although paying a higher interest rate than government credit.

Evaluation of the impact of credit on agricultural production and farmers' incomes was based on direct responses obtained from interviewed farmers. In the interviews, farmers were first asked to indicate whether or not credit use had any impact in terms of agricultural production and net income increases. This was then followed by a question to quantify the improvement (if it did occur) in terms of percentage or real value (ie. production weight and income). Finally, the respondents were asked to identify sources of the improvement. This evaluation showed mixed results.

The same numbers of farmer respondents indicated 'positive' and 'no' impacts of credit on agricultural production. Of the 30 farmers who indicated a positive impact of credit, 28 thought that the production improvement originated from farm intensification. These farmers suggested that credit availability enabled them to apply more fertilizers, seeds, pesticides, and better maintenance. Two farmers thought the improvement came from timely farm husbandry. They considered that the availability of credit enabled farmers to implement practices without delay, especially in catching up with water availability from rain.

A total of 30 farmer respondents observed that using credit had no impact on increasing agricultural production. These farmers observed no difference in their farm production level with or without credit. The majority of these farmers (16 respondents, 53%) applied the same level of intensification from year to year, such that the production they observed remained the same. There were 10 farmer respondents who experienced production failures due to disease attacks or adverse weather conditions at the time of credit use. Finally, four respondents reported no production differences, explaining this in terms of the small size of their farms and the fact that they were always in debt.

The average increase attributed to the provision of agricultural credit by farmers was 11% (with 'no' impact valued as zero).

The impact of credit on farmers' net income was thought by farmers to be less than that on farm production. Of the 30 farmers who reported a production increase, only 22 (73%) reported income improvement. The income increase was attributed to production increase (21 respondents, 95%), or to both production and price increase together (one respondent, five percent).

Of the eight farmers reporting a production increase, but no income increase, four claimed production costs had increased to the same extent as farm income, three claimed that the production increase was accompanied by a price drop, and one farmer had no record of income and accordingly could not observe any difference.

There were 30 farmer respondents who reported no impact of credit use on income improvement for several reasons. Nearly half of them (14 respondents) reported the same level of intensification either with or without credit, so that the impact of credit could not be determined. Seven of them stated that there was no production increase, and therefore no income increase. Four respondents held the belief that production and income level depended on weather or economic conditions, and that all depends upon luck. The other four respondents stated that there was no difference between use and non-use of credit since they had been always in debt. Another farmer could not determine whether there was any difference, as he had only a small farm, and believed that credit could not have any impact on production or income improvement.

In total, credit use was estimated to have improved farmers' average income by five percent.

It can be concluded that credit had little impact in terms of substantially increasing agricultural production and farmers' net income. The greater role for credit, which was frequently cited by farmers, was in helping poor farmers to sustain their farm production and thus their livelihood.

Credit repayment

There was variation in repayment rates amongst the credit schemes and borrowing farmers.

In terms of repayment rate, the farmers interviewed using the KKP government credit scheme could be classified into two groups. The first group, from Plambik village in the district of Praya Barat Daya, consisted of 10 farmers who had fully repaid their debt (although these were purposively sampled). The leader of this farmer group reported that other farmers in the group had also met their full responsibility. The second group, also comprised of 10 sampled farmers, was surveyed purposefully to represent late or low repayment levels. These farmers were from the village of Sengkerang, in the district of Praya Timur. The majority of these borrowers had partly repaid their loan (approximately 20-30%)and two had fully met their obligation. The leaders of these farmers indicated the repayment figure was about ten percent. The farmers in debt had promised in writing that they would repay their loan following the harvest of their rice (by March-April 2002).

The repayment rates of the farmers who used the KUT scheme showed very high variation. There was a group of KUT farmers, all from the village of Sengkerang, who had not paid back their borrowing at all. Half of them stated that they had forgotten that they had borrowed the credit in 1998 (the last KUT distribution in the village). Their farmer leader reported the case of zero repayment in his group was caused by production failure at the time credit repayment was due (in 1999). He stated that although the following years had been good for production, farmers been discouraged in making repayments by the belief that the government would clear the credit.

While the majority of the KUT borrowers in the villages of Plambik and Beraim had met their total obligation, some had only partly repaid and a very small proportion of farmers had made no repayments at all. Some key informants (their leaders) reported that the zero repayment had occurred in the case of borrowers who left their villages, at least temporarily (they went to Malaysia or Bali for paid employment). Government officers, including extension officers, were still attempting to collect repayments from all those who had not fully repaid their KUT borrowings.

The PKP scheme current in 2002 was launched at about the same times as the KKP and distributed to some farmers who could not obtain the KKP credit in the village of Sengkerang. This was due for repayment by December 2001. In 2002, there were 15 of 72 recipients who had only partly repaid or had not repaid at all. Their leader stated that the defaulting farmers had asked for an extension. Two members of the PKP scheme were sampled, but claimed that their time for repayment had not yet fallen due. Farmers who had just finished their repayment were borrowing again under the same scheme. Similarly, the PKP users in the village of Plambik were borrowing for the third time, but repayment on these loans was not due at the time of sampling. Information from the leader indicated that the first credit distribution was successful (100% repayment, with six late in repayment), and so was the second (with eight delayed repayments).

The UPKD credit scheme was utilized only in the village of Plambik. Borrowings under this scheme were due in April 2002, hence the repayment rate could not be assessed at the time of survey. However, one of the sample members had already repaid fully his UPKD borrowing. Informants reported that the previous UPKD distribution had experienced 100% repayment, although some occurred one or two months late.

In addition to government schemes, farmers also had access to private sources of credit. Private credit users surveyed in all three villages comprised only 13 respondents. Only two of them had their debt due, and they had met their obligation. The remaining respondents could not be rated, given that the time for repayment of their loans had not fallen due. However, the interviews generated a general impression that private credit users had repaid their previous borrowings so that they were allowed to borrow again.

The reasons for credit repayment were discussed in Sjah *et al*. (2003), and are summarised below. In order to make credit repayment, three interrelated factors must exist. These are financial capability, positive borrowers' character and positive motivation. The first factor explains that when there is financial capability then repayment is possible. Otherwise, borrowers have little chance of repaying their debt when they are in the difficult situation of financial incapability. If financial capability exists, the second factor is required for repayment to occur. Financial capability means nothing if borrowers have a 'negative character'. Farmer respondents who were responsible, aware of having debt, committed to keeping a promise, keen to avoid shame, and having respect for credit officers made repayments. Sometimes the borrower's character was superior to their financial capability. For instance, some farmers were prepared to borrow again (from the same or other lenders) in order to make their repayments on time.

The third factor, borrowers' motivation, could not be underestimated in terms of its importance in influencing repayment of borrowings. In particular, the motivation to obtain future borrowings had led borrowers to repay their debt even before its due date, and this was the case for majority of farmers using the KKP credit in the village of Plambik, in the district of Praya Barat Daya. Credit officers could motivate borrowers to make the repayment by conducting frequent visits and by being friendly to the borrowers. Another motivation for borrowers to make their repayment as soon as possible was the credit-associated risk. The perceived credit risk that farmers wished to shed included accumulated interest and feeling pressured or burdened for having debt, especially past the due date. As with other small farmers in other areas, such as in Nepal (Hamal & Anderson 1982, Anderson & Hamal 1983), Mexico (Moscardi & de Janvry 1977), and Brazil (Dillon & Scandizzo 1978), credit users in Lombok were risk avoiders.

The case of low repayment government credit, especially the KUT, was found to be more complex. There were significant numbers of farmers not repaying their debt due to unrealistic perception that government credit was a gift for the community so that their debt would be cleared. This may have been construed through their experience of credit clearance. This has occurred in the history of government credit distribution in Indonesia, when farmers' debts were cleared, ie. in 1998 when the government cleared the 1985-1995 farmers' remaining debt (Kompas, 20 April 2000; 12 September 2000). Farmers may have anticipated credit clearance would also apply to their loans. Kelly (1955) explains this farmers' rationalization as a construction corollary, whereby people anticipate events by construing their replications. This construction may appear in people's attitude, beliefs, opinions, and values (Bock 1976). In addition, the example of prominent borrowers who had not fully repaid their debts may have become excuses for some farmers not to meet their obligation, reasoning for their part that they would be losers if they repaid their loans while others did not.

Conclusion

National farm credit distribution from the government has been increasing, yet agricultural production and farmers' income have not followed the same trend in recent years. In addition, at the national level, the repayment of credit has tended to be lower as years proceed.

Although agricultural credit has been in high demand, it has had little impact in increasing agricultural production for individual users in the survey area (estimated at just over ten percent on average). The impact of credit on farmers' net income was even less (estimated to be about five percent). The increase in production was not always followed by income improvement, as the additional income associated with applying credit was sometimes compensated by extra costs. To some extent, agricultural credit enabled farmers to implement better husbandry practices, through applying more agricultural inputs (seeds, fertilizers, pesticides, crop maintenance) and through timely husbandry application. About half of the farmers interviewed reported that credit did not help. The other half of farmers experienced a small positive impact through the use of credit.

While credit repayment tended to be lower nationally in recent years, there was a varying repayment rate of individual users of many government credit schemes and private sources. It was found that the repayment level was connected to farmers' financial capability, character, and motivations. Financial capability should exist together with a positive borrowers' character, and sometimes, character was a more important factor than financial capability. Borrowers' motivation was just as important as other factors in determining credit repayment.

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