Characteristic of Borrowers in Agribusiness Microfinance Institution Formed by the PUAP Program in Kendal Regency, Central Java-Indonesia

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Abstract. Rural Agribusiness Development gives a 100 million business fund activity to a selected farmer group association. An Agribusiness Microfinance Institution is expected to manage the fund by providing a loan to its members. The priority of business is focused on the agricultural sector. However, in its development, an Agribusiness Microfinance Institution provides loans to the agricultural and non-agricultural sectors. The study's objective is to observe the characteristic of Agribusiness Microfinance Institution′s borrower in Kendal Regency, Central Java-Indonesia. Kendal Regency was selected as the survey area because a result study in 2019 showed that Kendal Regency is one area with 5 LKMAs good performance in Indonesia. The study was conducted on November 2022. Forty-nine respondents were selected purposively in the survey. The criteria of respondents were borrowing from LKMA from 2019 to 2022. Data were analyzed descriptively using SPSS. The results showed that the average respondent: age was 50 years old, getting an education for nine years, 34,7% worked as a farmer and trader, the loan amount was 5.4 million IDR, loan duration was 9.2 months, and the rate of interest per month was 1.47%. The primary respondents' reason for borrowing from LKMA was the loan amount, interest rate, fast disbursement and ease of requirements.

1 Introduction

Farmers have limited access to formal credit institutions such as banks because of the complexity of the procedures, and they do not know how to propose credit or provide collateral [1][2][3]. They depend on their source capital which is a minimal amount or lend to the money lender, marketing agents and input kiosks [4][5]. However, they should pay a high interest to money lenders. When borrowing from marketing agents, the farmers usually have an agreement to sell crops harvested to marketing agents, which they would accept a price lower than the market price when the product is sold. The Indonesian government, through the Ministry of Agriculture, held a Rural Agribusiness Development (PUAP)

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program to overcome the problem. The objective is to empower rural economies for the development of agribusiness activities.

In its implementation, the government provided funds of 100,000,000 (100 million) to a farmer group association (Gapoktan). Each Gapoktan is expected to establish an Agribusiness Microfinance Institution (LKMA) to manage the loans of its members. The PUAP program was carried out from 2008 to 2015. The government had provided capital for 7,090 Gapoktan in Central Java Province. In Kendal Regency alone, there are 277 units of PUAP programs managed by Gapoktan. Regarding LKMA institutions, Kendal Regency has 5 LKMAs in Indonesia that are already running well. They even have proposed additional capital to other financial institutions and have got the money.

Initially, LKMA only provided special funding assistance for the agricultural sector. However, with additional capital from other financial institutions, it can provide loans to industries other than agriculture as long as the borrower can meet the specified loan requirements. These requirements include the borrower's domicile in the same sub-district where the LKMA is located, loan collateral and strict sanctions for debtors who do not pay on time.

So far, a typical case is that there are customers who have borrowed government assistance funds through designated financial institutions/banks that do not pay loans on time or do not want to pay because there are no strict sanctions [6][7]. Some even consider that LKMA funds are grants that need not be returned. Therefore, it is interesting to know the characteristics of LKMAs' borrowers in Kendal, categorized as quite good LKMAs. Thus, this study aims to see the characteristics of business capital borrowers to LKMAs in Kendal Regency, Central Java, which have been running well in operation.

2 Materials and Methods

We studied in Kendal Regency, Central Java, in November 2022. Kendal was chosen as the research location because there were several LKMAs with good performance in the area. Forty-nine respondents of deliberately selected LKMA capital borrowers participated in the survey. The respondents were members of the Gapoktan who borrowed capital at LKMA from 2019 to 2022. The characteristics of borrowers in LKMAs were seen based on age, education level, income, employment, loan amount, employment sector and the main reasons customers borrow capital from LKMAs. Data were analyzed descriptively using SPSS version 25. Meanwhile, chi-square analysis is used to determine a relationship between the job background of the capital borrower and the number of loans customers obtained.

3 Results and Discussions

The average respondent was 50 years old, the youngest was 26, and the oldest was 63. The average education was nine years (junior high school level), with the lowest income was 4.42 IDR million and the highest being 286.6 IDR million per year. Moreover, the average loan was 5.4 million per one-time loan, with the highest loan amount of IDR 20 million and the lowest being IDR 500,000 (Table 1). The tenor average was 9.2 months, with the shortest tenor three months and the longest 24 months (2 years). Meanwhile, the average interest rate was 1.47% per month, with the lowest interest rate of 0.3% and the highest being 3%. The average family of an LKMA borrower was three persons, with the lowest number being a person and the highest being five persons. A previous study stated that microfinance institutions did not consider the number of families' member to approve a credit disbursement [8].

Table 1. LKMA Respondents' characteristics based on age, education, income, loan number, tenor, interest rate and number of families member (n=49)

Characteristic	Minimum	Maximum	Mean
Age (Years)	26	63	49.69
Education (Years)	5	16	8.76
Income (IDR)	4,418,833	286,608,000	56,496,100
Loan amount (IDR)	500,000	20,000,000	5,438,775
Loan tenor (Months)	3	24	9.17
Interest rate (%)	0.3	3.0	1.473
Number of families member (Persons)	1	5	2.69

Regarding the type of work of LKMA borrowers, most were farmers and traders, each amounting to 34.7%. For those who had jobs in agriculture, the crops grown were rice, corn, watermelon and chilli. At the same time, traders included stalls, meatball sellers, chicken noodles, vegetables, fish, livestock and clothes peddlers. Customers with other job categories amounted to 18.4%, including civil servants and village officials, private sector and school guards (Table 2). Labourers consist of agricultural workers and non-agricultural labourers.

Table 2. Respondent's job (n=49)

Jobs	Frequency	Percent
Farmer	17	34.7
Seller/Peddlers	17	34.7
Labourers	6	12.2
Others	9	18.4
Total	49	100.0

Almost 48% of sellers got a loan between 500,000 and 4 million. At the same time, 46.7% of farmers got capital loans of 4 to 8 million. Thirty per cent of labour got a significant amount of loan capital, between 8 million to 12 million (Table 3).

Table 3. The connection between respondents' jobs and capital loan amount (n = 49)

Jobs	Loan amount				Total
	500,000-3,999,999	4,000,000-7,999,999	8,000,000-11,999,999	≥ 12,000,000	
Farmer	8	7	0	2	17
Seller/Peddlers	11	4	1	1	17
Labourers	1	0	3	2	6
Others	3	4	1	1	9
Total	23	15	5	6	49

The Chi-square result showed a significant correlation between LKMA's borrower jobs, and the amount of loan capital given. The Chi-square sig value 0.017 < 0.05 (Table 4). There are some reasons respondents borrowed from LKMA. Four prominent reasons are: the loan amount is suited to the borrower's proposed, monthly lowest interest rate, on-time and fast disbursement and ease of requirements (Table 5). The finding aligns with previous research conducted in Yogyakarta, which stated that farmers want loans from LKMA because of the lowest interest rate and ease of the procedure [7].

Table 4. Chi-Square value between LKMA's borrower jobs and the amount of loan capital obtained

Chi-Square Tests			
	Value	**df**	**Asymptotic Significance (2-sided)**
Pearson Chi-Square	20.086ᵃ	9	.017
Likelihood Ratio	18.796	9	.027
Linear-by-Linear Association	1.903	1	.168
N of Valid Cases	49		

The LKMA borrower requirements included: having any job/type of business, a sub-district of LKMA location that was the same as the participant's domicile and provided collateral. The usual collateral used is land certificates, houses or motorcycle BPKB. Collateral aims to reduce the risks faced by loan providers if one day customers are unable to pay their loans [9][10]. Gapoktan membership is a special requirement for customers to be able to borrow capital from several LKMA's in Kendal, but some MFIs do not make it a requirement. The finding is slightly different from research conducted by Wulandari [11], which states that only farmers who are members of the Association can access the PUAP funds.

Table 5. Reasons respondents borrowed from LKMA

No	Factor	Ranking	Number of respondents chosen (person)
1	Loan amount (IDR)	1	14
2	Lowest interest rate	2	18
3	Fast disbursement	3	20
4	Ease process of procedure	4	25

On average, It took two days to approve loan applications. The fastest loan application was approved within a day, and the maximum was five days. Most respondents (83.3%) said their loan application was approved within one day, while only 6.3% of respondents stated that their loan application was only approved within five days.

Regarding loan allocations, twenty-sixth respondents (53.1%) said they use the loan to develop their farm business. The average loan allocated for farm business was 89.8% (Table 6).

Table 6. Loans' allocation

Sectors	Respondents (%)	Loan allocation (%)
Agriculture	53.1	89.8
Non-agriculture	38.8	89.6
Consumptive	26.5	17.4
Education	14.3	17.2

Farmers' respondents allocated the loan optimally to buy inputs for production factors to increase their revenue [12][13][14]. Farmers' loan credit also significantly increases crop production and value-added when allocated to extend agricultural land [15].

Wirakusuma [2] stated that the allocation of loan credit for farm business investment would be bigger when the level of commercialization is higher or the business orientation is to generate products that suit market needs.

Moreover, 19 respondents (38.8%) said that the loan was used to expand the non-agriculture sectors, such as stalls. The allocation for expanding the non-agriculture sector was 89.6%. In addition, 13 out of 49 respondents (26.5%) used the loan for consumption, and the average was 17.4%. Seven out of 49 respondents (14.3%) used the loan for school

education, with a total allocation was 17.2%. Regarding whether the borrowers would re-lend to the same MFI, most (94%) answered very interested, 4% quite interested, and 2% not interested (Figure 1).
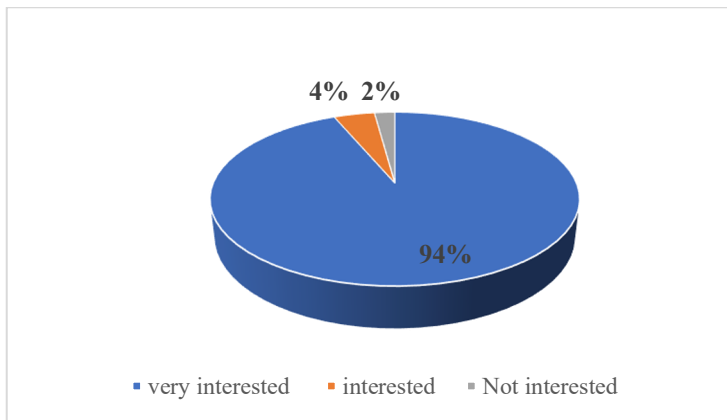

Fig.1. Customers interested to re-lend loans to the same LKMA (n= 47)

While borrowing capital from MFIs, all customers (100%) paid off the debt on time and never delinquent the payments (Table 7).

Table 7. Delinquent and pay-off loan by the borrower (n=47)

Question	Yes (%)	No (%)
During borrowing, have you ever delinquent the payment?	0	100
During borrowing, have you ever not paid off the loan?	0	100

4 Conclusion

The study showed that the average of LKMA lender's age Kendal was 50 years old, education was junior high school, and most of them worked as farmers and traders, each of them was 34.7%. The loan average approved by LKMA was 5. 4 million IDR, with a redemption duration, was 9. 2 months and an interest rate of 1. 47%. The ultimate respondents' reasons borrowed from LKMA were: loan amount, lower interest rate, easy disbursement and ease of requirements. Chi-square analyses showed a significant relation between lender occupation the and loan amount obtained by the lender.

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