



# Empowerment of Agriculture Communities Through Financing Programs

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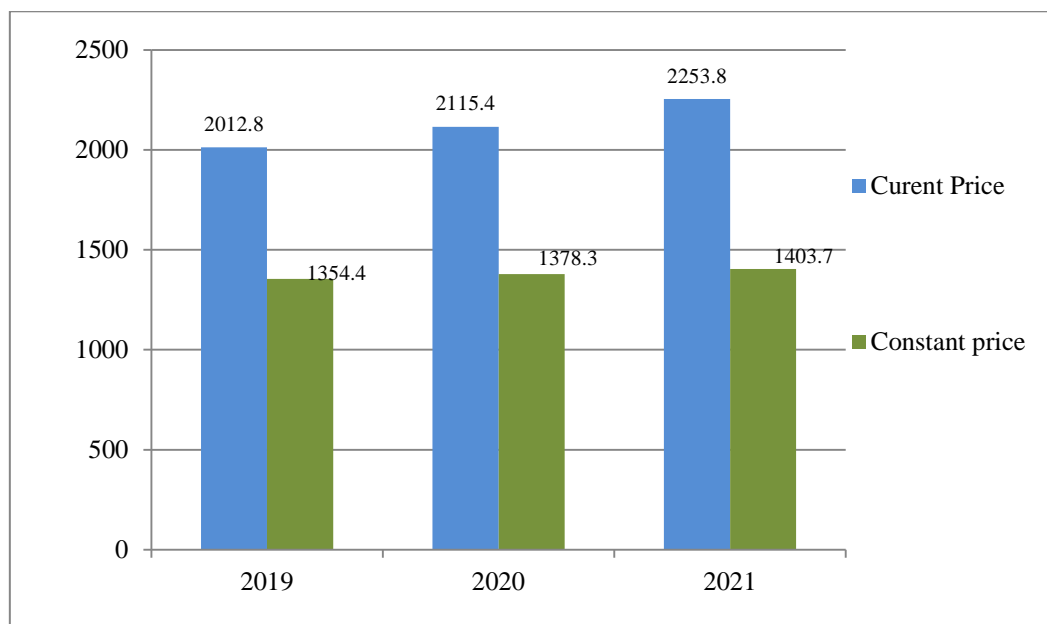
## Abstract:

The welfare of actors in the agricultural sector must be guaranteed considering their role in the economy. But often the welfare of farmers is still classified as less prosperous, so empowerment is needed. This study aims to find out about the implementation of agricultural financing and its role in empowering agricultural communities. The method is Systematic Literature Review (SLR). The data used is sourced from journal articles searched through Google Scholar. The results of the study show that there are many types of agricultural financing applied in Indonesia. These various financing programs have a positive role in empowering agricultural communities. Through empowerment programs, the community becomes more empowered and can improve their welfare. Recommendations that can be given are that it is necessary to pay attention to various sources of financing that are in favor of farmers so that they can become a bridge to empowering agricultural communities.

*Keywords:* Empowerment; Financing; Agriculture; SLR

## 1. Introduction

Agriculture is the second largest sector after industry which plays a role in supporting the economy in Indonesia. Based on GDP data by business field, agriculture contributes to an increasing trend when viewed from the last few years, namely during 2019-2021 both based on constant prices and current prices (BPS, 2022).



Source : BPS, 2022

**Figure 1.** GDP at Current Prices and Constant Prices by Agricultural, Forestry, and Fisheries Business Field

When viewed based on current prices, the agricultural business sector contributes to the national GDP of 12.71 percent. Then in 2020 it contribute 13.70 percent to GDP, and in 2021 it contribute 13.28 percent. The agricultural growth rate in GDP data by business field in 2021 is 1.84 percent. If we look at the growth rate in the previous year, the growth rate in 2021 is a higher number, although lower than the growth rate before the Covid-19 pandemic (Databoks.id, 2022).

As we can see the large contribution of the agricultural sector to the country's economy, the actors in this sector certainly have an important role. The goal of the Indonesian state is to advance the general welfare and educate the nation's life. In order to achieve this, the welfare of agricultural actors must be guaranteed. The welfare of actors in agriculture can be achieved through community empowerment. Community welfare is getting better after the community empowerment program is carried out ( Herawati et al., 2014).

The actual condition related to the welfare of agricultural actors is still quite far from prosperous conditions, especially farmers as the main actors. In 2021, the Farmer's Exchange Rate (NTP), which is one of the indicators to measure the level of farmer welfare in 7 provinces, has decreased. The NTP index that is used as a benchmark is 100, meaning that these 7 provinces have FTT below 100. Provinces that experienced a decline in 2017 2021, namely Bali, East Nusa Tenggara, West Java, Yogyakarta, Banten and South Sulawesi. This condition shows that the ability to exchange agricultural products is lower than the goods/services needed in the agricultural production process or household needs (Databoks.id, 2021).

Therefore, the welfare of the main actors and agricultural business actors, especially farmers, must be improved, one of which is through empowerment programs. Pusut (2017) said that empowerment includes a series of efforts to increase community empowerment related to human resources and optimal use of these resources. Empowerment in agriculture is relate to the development of behavior so that independence is formed in running a business. One of the efforts that can be done in the context of empowering farmers is to improve the quality of human resources. This achievement can be done by providing facilities so that farmers can develop more, such as through counseling (R. Fauzi & Mahendradi, 2021).

Empowerment programs can be run in various ways. One way that can be done is with a farming financing program. It is common knowledge that one of the obstacles often faced by farmers is limited capital. In practice, farmers often have difficulty accessing financial institutions due to the various limitations they face. Some of the limitations faced by farmers in accessing financing are collateral requirements, low level of education so that farmers have difficulty understanding procedures to access credit, etc. ( Mishra et al., 2018).

## 2. Literature Review

Financing is any type of loan in which the borrower is obliged to return or repay the funds that have been given and the interest determined and in accordance with the agreement between the borrower and the recipient (Hussain & Officer, 2010). According to Zopounidis (2002), financing is the provision of money in which it is based on an agreement or in the form of an agreement between the Bank and the borrower. The borrower has the obligation to return the money he borrowed in accordance with a certain period of time and is added to the remuneration from the borrower to the bank. The elements of financing consist of trust, agreement, time period, risk, and remuneration (Nurdin et al., 2018). Financial institutions consist of formal institutions and non-formal institutions. Formal institutions include commercial banks, rural banks, cooperatives, pawnshops, and village credit banks. Non-formal financing institutions include traders of agricultural facilities, processors of agricultural products, traders of agricultural products, friends, family, etc. Wulandari et al., 2017).

## 3. Reaserch and Methods

The method used in this study is *Systematic Literature Review* (SLR). SLR is a method that can be used to identify, conduct studies, evaluate, and make interpretations according to the topics to be discussed (Triandini et al., 2019). As a guide in conducting the study, in this discussion limited by *research question* so that the study process can be more focus. As a reference, the following research question are used.

Q1. How is the implementations of financing in the agriculture sector?

Q2. What is the pattern of agriculture empowerment through the implementations of financing programs?

Article searched using the Google search engine through Google Scholar (<https://scholar.google.com>). The search use the keywords "empowerment", "financing", and "agriculture". The search is also limited to the range of 2018 – now in order to find articles that are newer and in accordance with current conditions. Based on the search, 1,300 articles were found published by various publication media. The selection of articles is done based on the title of the article which must be in accordance with the topic discussed. The articles found are then reduced by looking at the title and abstract of the article in which it must discuss empowerment and financing. Through this process, 10 articles that are most relevant and in accordance with the discussion discussed are taken.

## 4. Results and Discussion

### Article Classification

The classification of articles is done by making *research question* as a reference in conducting the study. The following is a list of articles that serve as references for this study.

**Table 1.** Article Classification

No.	Title	Writer	Year
1	Empowerment of Community Agriculture through the Implementation of the People's Business Credit Program (KUR) for the Achievement of Food Security	Fauzi & Mahendradi	2021
2	The Role of Community Empowerment Business Credit in Increasing the Income of Potato Farmers in Kayu Aro District	Zasriati	2021
3	The Effect of UED-SP Financing on Business Effectiveness of Villagers in the Agricultural Sector, Bantan District	Mahalizikri & Tantiana	2020
4	The Role of the KSM Jaya Amanah Agricultural Finance House in Implementing Farmer Financial Inclusion	Jubaya & Wulandari	2020
5	Community Empowerment by Cooperatives to Realize Welfare for Farming Communities in the Cepogo Region	Mustangin <i>et al.</i>	2018
6	Peer to Peer Lending Platform Igrow in Empowering Farmer Communities	Fatimah <i>et al.</i>	2019
7	The Role of the Village Government in Improving Farming Businesses Through Seed Subsidies during the Covid Pandemic	Aisyah & Puspitarini	2022
8	Empowerment of Solis Farmer Group in Sasur Village, Kao District, North Halmahera Regency	Rorong	2021
9	The Role of BMT in Economic Empowerment (Case Study on BMT Padi Bersinar Utama Surabaya)	Fitria & Qulub	2020

### Financing in Agriculture

Implementation of financing programs, especially the “Kredit Usaha Rakyat” (KUR) program in Indonesia is seen by using the theory of Edwards III regarding the variables that must be considered in public policy, namely communication, resources, attitudes, and bureaucratic structure. The bureaucratic structure of the implementation of KUR is good considering the targets set during the distribution of the budget can be achieved. This good achievement has something to do with communication and attitude which of course is also based on good communication and attitude. When viewed from the resource variable, the implementation of the financing program is still less than optimal because it has not yet targeted many agricultural resources (R. Fauzi & Mahendradi, 2021). In addition to commercial banks, financing can also be channeled through Islamic banks using a mechanism that is in accordance with Islamic sharia (Rahajeng, 2013).

One of the other financing programs implemented in order to overcome the problem of limited capital is the establishment of a village financing institution, namely the Savings and Loans Village Economic Business (UED-SP). This institution has a role to channel funds to people in need. Then the management is carried out by the village community concerned (Mahalizikri & Tantiana, 2020). Then one of the credit programs that can also be utilized in the context of community empowerment is the Community Empowerment Business Credit (KUPEM) which aims to overcome limited capital in order to increase farmers' income through increased production, processing, and marketing. The disbursement of the credit budget in the KUPEM program often increases and decreases (Zasriati,

2021). Based on this, it can be seen that farmers' access to credit is still not constant and sustainable. Ideally, farmers' access to financing continues to increase in order to increase their farming activities as well. By increasing the quality of farming that is run, it can encourage better economic growth.

Sources of financing can also come from groups that are developing in the community such as Non-Governmental Organizations (KSM). One of the KSM has a flagship program in the form of Agricultural Financing Houses (RPP). Members who are members of this group can optimize the utilization of financing. The existence of institutions like this can suppress sources of financing that tend to suppress and harm the borrower or the community, such as moneylenders. Farmers who are *unbankable* can use this institution to apply for a loan (Jubaya & Wulandari, 2020). Another financial institution that can be reached by farmers is Baitul Mal Wat Tamwil (BMT) which also usually provides loans for those who need financing (Fitria & Qulub, 2020).

Institutions that can be a source of financing for farmers include cooperatives. Cooperatives can usually provide services for farmers who lack capital to run their farms. The form of financing that is channeled through cooperatives is usually a savings and loan. In addition, there is also the provision of training for farmers in order to improve their farming (Mustangin et al., 2018).

Other ways that can be done in channeling financing to farmers are: *peer to peer lending*. Companies engaged in financing through the mechanism of *peer to peer lending* this will connect farmers and investors. The company will receive investment from investors and then distribute it to the farmers. In the use of the mechanism *peer to peer lending* This is more systematic in order to ensure that all related matters go according to what they should be (Fatimah et al., 2019).

In addition to forms of financing in the form of loans or funding, there is also financing in the form of subsidies which are usually provided by the government. Subsidies are usually applied to agricultural input products such as seeds, fertilizers, etc. The process of distributing these subsidies usually flows through government agencies from the top to the bottom. The distribution process starts from the Department of Agriculture, then to the village head and to farmer groups. The existence of this subsidy can ease the burden of production costs that must be incurred by farmers (Aisyah & Puspitarini, 2022). Farmer groups themselves as institutions at the farmer level can play a role as a source of financing for members. Usually, financing relies on trust and can reach more parties (Rorong, 2021).

### **The Role of Financing Programs in Empowering Agricultural Community**

Empowerment means giving power to people who are weak or less fortunate (Hurairah in Fauzi & Mahendrati, 2021). More broadly, empowerment is a term used by various levels of society when it comes to increasing potential, increasing dignity, increasing self-confidence, and maintaining the prevailing culture (Sedarmayanti in Fauzi & Mahendrati, 2021). Pusut (2017) states that empowerment includes a series of efforts to increase community empowerment related to human resources and optimal use of these resources. Empowerment in agriculture is related to the development of behavior so that independence is formed in running a business. Efforts that can be made in the context of empowering farmers can be done by improving the quality of human resources. Improving the quality of human resources can be achieved through the provision of facilities so that farmers can develop more, such as through counseling or training (Fauzi & Mahendrati, 2021).

Empowerment of farmers can be achieved and enhanced by various financing programs in Indonesia. Strategies that can be done to empower farming communities with additional capital from financing sources are providing regular socialization related to agricultural potential in Indonesia, establishing partnerships with companies, improving the quality of production, increasing product competitiveness, improving the quality of regeneration of human resources, providing ease of access to sources of capital, and increased use of technology (Fauzi & Mahendrati, 2021). The provision of financing for farmers is proven to increase farmers' income because the additional capital obtained can be used to carry out agricultural intensification by using superior seeds as well as better and more appropriate processing and maintenance. Therefore, The quality of the products produced by farmers is increasing and the selling price is also increasing so that farmers' income is higher (Sugiyanto, 2017). Providing financing can also increase the effectiveness of farming run by farmers (Mahalizikri & Tantiana, 2020). Increasing the effectiveness of farming also shows an increase in the empowerment of farmers in running their farms.

Providing financing through financial institutions at the village level can provide benefits in the form of increasing community empowerment. Communities or farmers can optimize access to financing sources. The existence of financial institutions can also encourage financial inclusion which is part of the characteristic that a society is more empowered (Jubaya & Wulandari, 2020). Financial institutions such as cooperatives can also provide assistance and training for farmers to improve farmers' abilities. With the assistance and training, there have been several changes starting from the economic side, increasing knowledge, and maintaining community traditions. (Mustangin et al., 2018). One of the things that can be developed the knowledge and capacity of farmers is about ability to market product by utilizing technology. This can encourage marketing efficiency and increase profits for farmers. This effort is important because people's understanding is still lacking in using digital information technology to market their products (Setiawan et al., 2021).

Community empowerment that can be done through the financing model *peer to peer lending* Among them are farmers who have adequate information regarding good planting methods, commodity management processes, to the use of technology, and also have market certainty. Based on this, the farming run becomes more productive (Fatimah et al., 2019). Apart from the mechanism *peer to peer lending* and other forms of financing, financing in the form of

subsidies also plays a role in community empowerment. Subsidies play a role in reducing the burden of costs that must be incurred so that the income obtained by farmers is greater (Aisyah & Puspitarini, 2022).

## 5. Conclusion and Suggestions

The conclusion of this study is that there are many types of agricultural financing that have been implemented in Indonesia. Financing has a role in empowering the agricultural community which can encourage the welfare of farmers for the better. Based on these findings, the authors recommend paying full attention to sources of financing that have full support for farmers so that farmers can be helped and become more empowered.

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