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Evaluation of the impact of utilizing people's business credit on rice cultivation farmers' group

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Abstract: Indonesia is an agrarian country with the majority of its population engaged in farming activities. One of the primary challenges faced by farmers is the limited capital available to initiate and expand their businesses. To address this issue, the government launched the People's Business Credit (KUR) program, which serves as a financing facility for small enterprises, including farmers. This study aims to analyze the factors influencing rice farmers' participation in Cianjur Regency in utilizing KUR facilities and the impact of this participation on their farming businesses. The research employs a descriptive verification method with a quantitative approach. The findings indicate that farmer participation in KUR is significantly affected by factors such as the prohibition of usury, ease of access, and the availability of initial capital. Conversely, variables like farming experience, land area, and grain selling prices do not have a significant influence on participation. The utilization of KUR has been shown to enhance the quality of production and increase the income of rice farmers. These results provide valuable insights for the government to improve KUR distribution policies, making them more effective in boosting the economy of small rural communities.

Keywords: *Income, People's business credit, Rice farmers, Rice production.*

1. Introduction

Self-sufficiency in rice, corn, and soybeans is the government's target for meeting the food needs of the Indonesian people. Therefore, to stimulate farmers to intensify rice cultivation, capital support is necessary. This idea led the government to issue the People's Business Credit policy, which is intended for individuals who lack capital for their businesses. The government has implemented policies to reduce rice imports and achieve greater food independence in Indonesia by making it easier for rice farmers to access People's Business Credit. This financial support helps farmers to increase their capital availability in agriculture, thereby promoting self-sufficiency and reducing reliance on imports.

Cianjur Regency is recognized as one of the regions that produces substantial quantities of rice. The potential for rice production is supported by adequate infrastructure, particularly a reliable irrigation water supply that enables some rice fields to be cultivated continuously. Consequently, this district plays a significant role in fulfilling the national rice demand [1]. Through agricultural intensification, it is hoped that the rice produced will meet the national rice requirements announced by the government.

People's Business Credit, known as KUR in Indonesia, was initiated in 2007. The schemes offered include revolving funds, capital linkage, interest subsidies, and guidance towards commercial financing. MSME actors, including farmers, can access one of the suitable schemes for their businesses. Funds are provided in the form of working capital and investment capital, targeting talented individuals, business entities, and business groups that are productive and viable but lack additional collateral or do not meet the bankability requirements.

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Microfinance institutions (MFIs) play a vital role in delivering financial services to individuals and small businesses within underserved or low-income communities. Nonetheless, MFIs frequently encounter challenges related to efficiency and asset management. Factors such as inadequate infrastructure, elevated operational costs, and the necessity for personalized client services can hinder the operational effectiveness of MFIs. Furthermore, MFIs often possess limited capital, which constrains their capacity to extend loans to microenterprises and individuals, thereby impacting their overall growth and sustainability. Although the efficiency and assets of microfinance institutions are low, they provide loans to microenterprises by offering convenience through mediation and interest-free terms, enabling these institutions to maintain liquidity [2].

In the potato farmer group, credit provision did not show any significant difference in the average income of potato farmers. It can be said that the effect of credit provision has a varied impact on different types of commodities. Paying attention to this phenomenon, several aspects support the use of credit, including social aspects, economic aspects, religious aspects, or farmers' beliefs held by each farmer who receives credit. In several countries, microbusiness financing primarily comes from bank loans, which account for 89%, and this influences macroeconomic changes [3].

Credit for the People's Business Credit program in Indonesia for rice farmers is influenced by credit interest rates and grain prices, namely, when interest rates are low and grain prices are profitable, farmers tend to be more interested in applying for credit. Customer perception and trust are important factors in obtaining loans. Therefore, research is still needed on the factors that influence people's business credit decisions among rice farmers in Cianjur Regency. The aim of the research is to analyze the factors that influence people's business credit decisions and their impact on the production and income of rice farmer groups.

2. Literature Review

The People's Business Credit is a government program that serves as a financial tool to enhance the productivity of farmer groups. The objective is to facilitate small and micro companies, especially farmer groups, with affordable interest rates and simplified eligibility criteria for accessing funding [4]. The People's Business Credit can be used for many purposes, such as business capital, infrastructure development, technology advancement, and training for farmer group members in contemporary and effective farming practices, business administration, and technology utilization [5]. People's Business Credit can also be utilized to facilitate the expansion of farmer group enterprises, including the establishment of agritourism, animal husbandry, or other agricultural ventures. Implementing business diversification strategies can effectively mitigate risk and enhance the overall income of farmer groups.

According to Elizabeth's [6] research, the effectiveness of financing programs aimed at boosting production capacity and agricultural productivity can be seen in the presence of certain facilities, albeit in limited quantities. These facilities include farm credit, farm infrastructure, input assistance (such as Alsintan), expansion of planting and harvesting areas, field officers (extension workers and assistants), institutional roles, and other infrastructure necessary for farming activities. Nevertheless, the government must address multiple issues to ensure that the funding programs are executed more specifically, timely, and efficiently. This may be achieved by reviewing, redirecting, and revitalizing various finance and development programs in the agricultural sector and other relevant areas.

According to Panekenan et al. [7], there has been a yearly rise in credit allocation to the agricultural sector. This indicates that banks are gaining more trust from the community in supporting agricultural enterprises by providing loans to improve their capital. In order to foster the growth of micro companies in Malaysia, the government, microfinance institutions, and other relevant organizations are actively engaged, Chin and Nor [8]. Aldi's [9] research findings demonstrated a notable impact in terms of augmenting the number of farmers. This occurs because credit funds are utilized in accordance with their intended purpose. The help of microfinance institutions plays a crucial role in achieving the aims of microenterprises and promoting sustainability [10].

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Owning their own capital allows farmers to optimize the use of production facilities, as is the case with maize farmers in West Nusa Tenggara. Based on research by Tajidan [11], small business credit can increase maize production by 65.84% to 69.27%. This demonstrates that small business credit schemes positively influence the performance of maize farming. Farmers in NTB also exhibit a high level of loyalty in fulfilling credit agreements.

People's business credit is very useful in developing agricultural businesses, such as increasing the productivity and income of farmer groups. For example, the research findings of Sari et al. [12] and Nita [13] show that KUR has a significant effect on increasing farmers' productivity and income. So, it can be concluded that people's business credit has a positive effect on the process of increasing indicators that can affect the productivity and income of farmers. Apart from the ease of financing people's business credit, individual farmers must also be wise in managing the people's business credit funds that have been given, so as to achieve the welfare of farmers.

The framework of thinking in this research can be described in Figure 1.

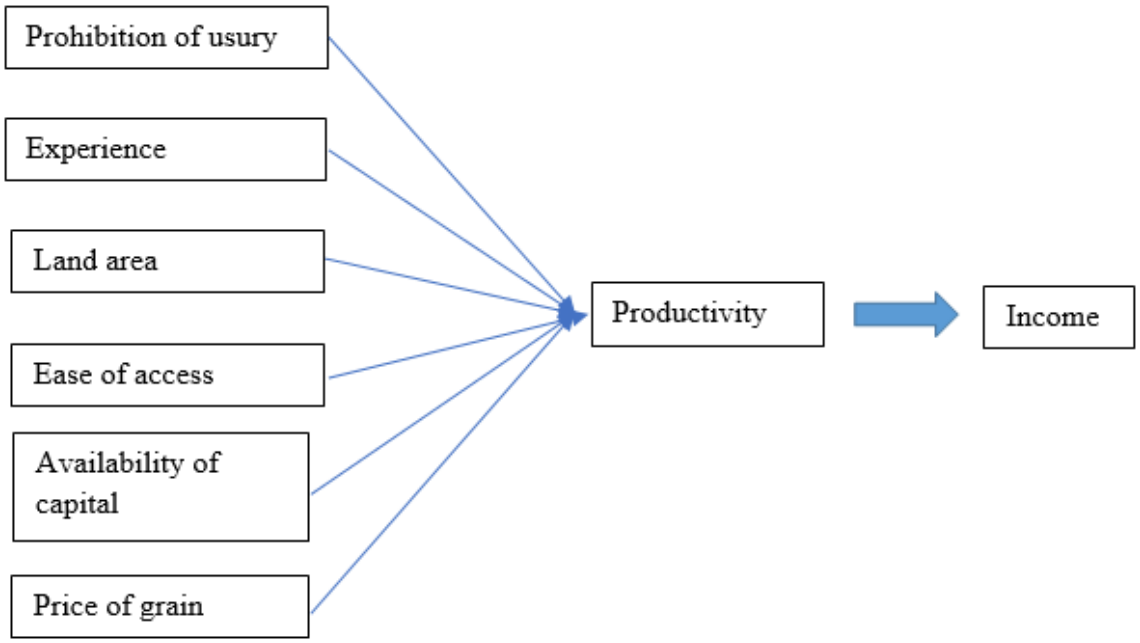

Figure 1.
Research Framework.

3. Research Methodology

This research method is descriptive verification with a quantitative approach. The population observed is rice farmers who utilize People's Business Credit in Cianjur district, West Java. The data collection process took place in 2021/2022, allowing for the evaluation of its use in 2023. The data obtained includes primary data directly from farmers and secondary data from various supporting sources. The sample of farmers was determined to include farmer owners and cultivators who planted during the 2021/2022 planting period. As controls, farmers who did not utilize People's Business Credit were also included. The total number of respondents, calculated using the Slovin formula, was 90.

Validity and reliability tests were carried out to measure the validity of the instrument, followed by model suitability tests and model capability tests. To analyze the simultaneous influence of the observed variables, the F test is used, while the partial influence is analyzed using the T test, so that the hypothesis is obtained that the use of People's Business Credit is positively influenced by compliance

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with the prohibition on usury, farming experience, land area, ease of access, farmers' initial capital, and the selling price of grain at harvest.

4. Result and Discussion

4.1. Performance of Farmers Participating in People's Business Credit

4.1.1. Compliance with the Prohibition on Usury (X1)

The results of interviews with participating farmers show that some farmers understand the prohibition of usury, which involves borrowing money with additional interest from financial institutions, while others do not understand this concept. The overall result indicates that 61.36% of farmers do not understand usury, whereas 38.64% understand the prohibition of usury. This suggests that the respondent farmers who participated did not fully comprehend the prohibition of usury. The comparison with farmers who are not participating in the People's Business Credit can be depicted as the curve in Figure 2.

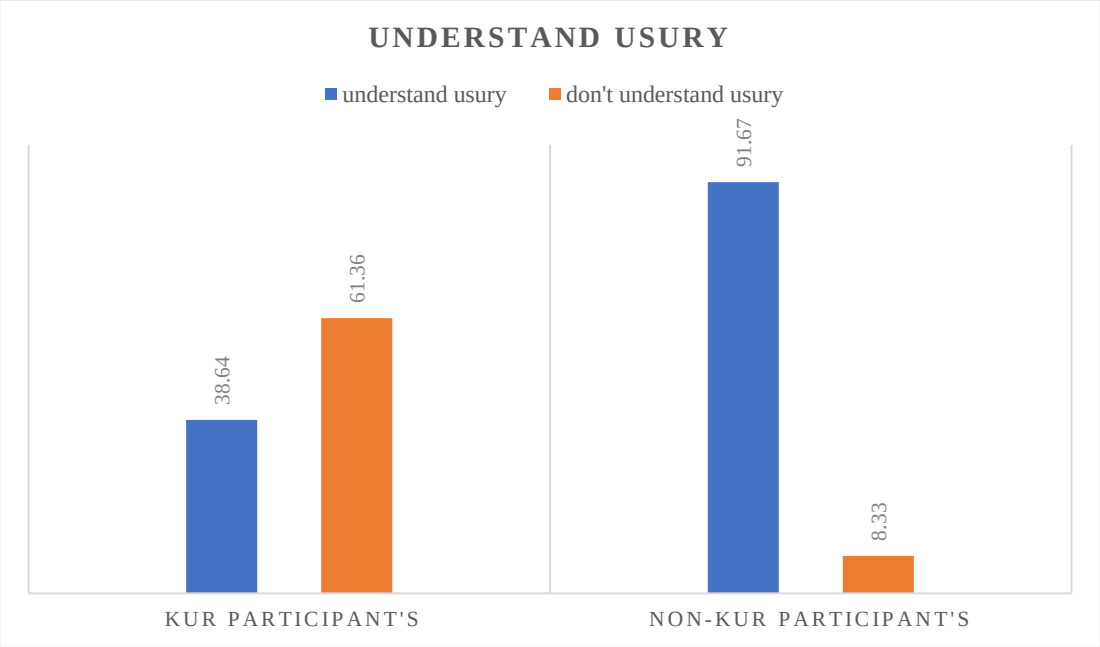

Figure 2.
Comparison of compliance with the prohibition on usury.

Compliance with the prohibition of usury impacts motivation or attitudes towards borrowing; the curve indicates that this understanding is reflected in the lack of participation in borrowing among those who understand the prohibition of usury.

Islamic and Halal finance are Sharia business sectors that share the same values, markets, and principles. Although there are similarities, there are differences between Islamic finance and the halal sector. Every businessman is able to understand halal production and halal business financing. In Malaysia, the involvement of sharia financing in the halal industry is still low, resulting in limited penetration of sharia financing among halal industry players. This has not yet been fully achieved [14]. In India, a digital microcredit platform was introduced, which was achieved by building connections with customers, establishing familiarity, and gaining credibility to ensure continuity in accessing resources [15].

Islamic microfinance institutions in Turkey are responsible for and contribute to the finances of low-income communities. They participate in strengthening these communities, including managers of

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Islamic microfinance institutions (LKM), representatives of regulatory authorities, and academics, including Sharia scholars [16]. Cases of loan defaults occur more frequently among Islamic loan borrowers in Afghanistan than among conventional loan borrowers, especially in areas controlled by the Taliban. Further support from Islamic lending microfinance institutions includes business Murabahah loans with special group loan schemes for women, which facilitate the smooth transition of the microfinance industry [17].

4.1.2. Experience in Farming (X2)

Experience in farming influences the decision to take out a loan because the amount of time spent in farming determines whether it is necessary to utilize a loan. As a reference, respondent farmers were grouped into those with less than 20 years and more than 20 years of farming experience. The research results showed that respondent farmers with either less than 20 years or more than 20 years of farming experience utilized people's business credit loans for their farming activities.

The results of a comparison of farming experience with non-participating farmers are presented in Figure 3.

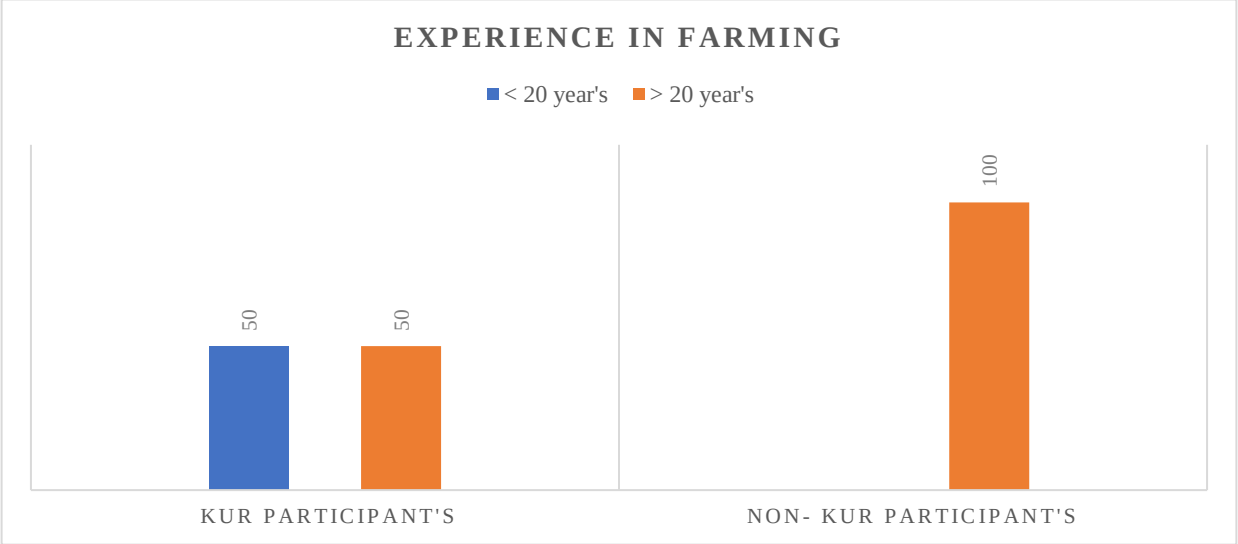

Figure 3.
Comparison of farming experience.

From Figure 3, it can be said that the people's business credit participants' farming experience varies from young to old, while non-participant farmers have the same age experience. This shows that farming experience has an impact on people's business credit decisions.

4.1.3. Land Area (X3)

The land area in this study is categorized into two groups: less than 0.5 Ha and more than 0.5 Ha. Respondent farmers who used loans with a land area > 0.5 Ha accounted for 65.91%, while those with a land area < 0.5 Ha comprised 34.09%. Compared with farmers who are not loan participants, this information is illustrated in Figure 4.

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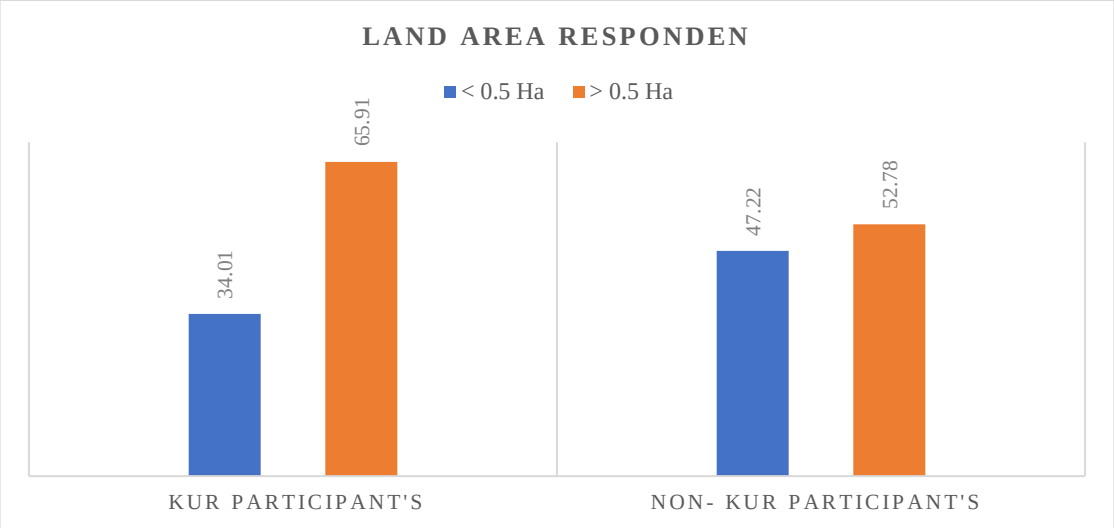

Figure 4.
Comparison of land area.

The comparison results in Figure 4 show that most participating farmers have a land area of more than 0.5 Ha. Borrowing is done to meet the capital needs of farming businesses because large areas of land require more production facilities.

4.1.4. Ease of Getting Access to Loans (X4)

The results of observing the ease of access and obtaining loans for loan-participating farmers can be divided into two categories: those who find it easy to get a loan and those who find it difficult. The observation shows that 59.09% of farmers reported it was difficult to obtain a loan, while 40.91% found it easy. When compared with farmers who do not participate in loans, these results are illustrated in Figure 5.

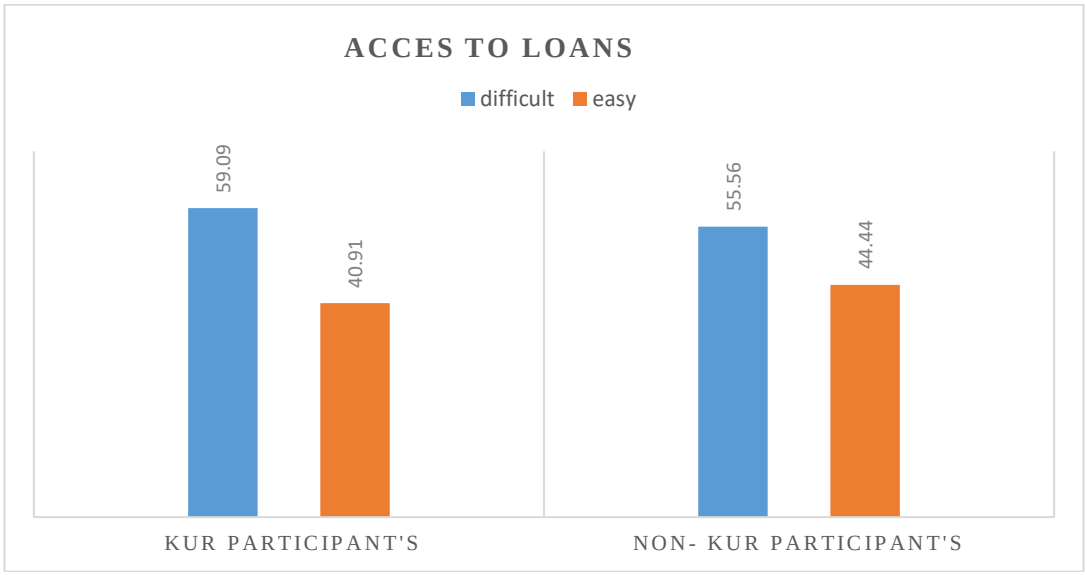

Figure 5.
Comparison of the ease of obtaining People's Business Credit.

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The figure shows that access to People's Business Credit is difficult because there are requirements that are difficult for customers to fulfill, such as collateral requirements held by prospective borrowers, which are used as guarantees for the borrower.

The results of the research indicate that the capacity of rice farmers in accessing People's Business Credit is in the high category. Farmers' capacity is influenced by the length of their farming experience, support from extension services, and support from the social environment [18].

This Malaysian financial institution operates to improve the financial performance of small industries, ensuring that the financial system is efficient [19]. Microfinance innovations such as unsecured loans, progressive loans, solidarity groups, and relational loans serve the poorest communities [20]. The establishment of microfinance institutions in Malaysia is aimed at meeting the financial needs of micro and small businesses. Rebates should be given to good borrowers to encourage them to repay their loans on time without delay [21].

4.1.5. Availability of Cash Capital (X5)

Cash capital is initial capital prepared to provide production facilities for farming, thus helping the farming business run smoothly, which has an impact on farmers' production and income. The results of observations show that almost 69.91% of farmers participating in People's Business Credit provide funds for initial capital for farming, while 34.09% do not provide capital. The overall results compared to non-participant farmers can be obtained in Figure 6.

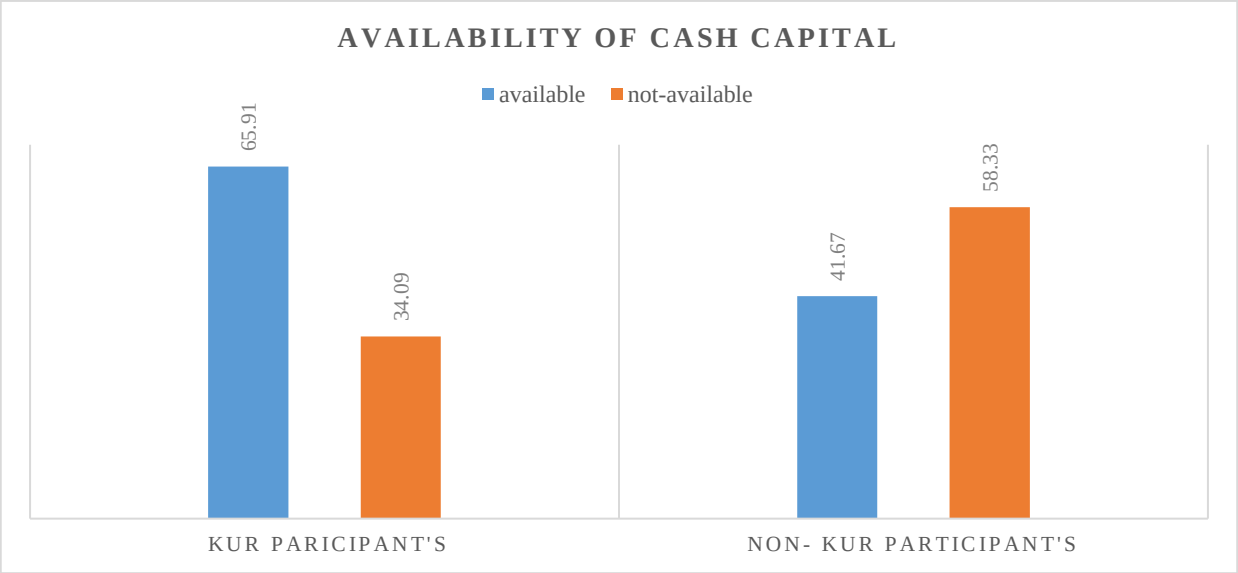

Figure 6.
Comparison of farmers' initial capital availability.

The research results show that the number of farmers participating in the People's Business Credit who provide initial capital is greater than farmers who do not participate in the People's Business Credit. This occurs because participating farmers have the responsibility to repay loans obtained from their rice production, so they must be serious about implementing and financing farming businesses to ensure high production and good quality, which increases income. Part of the income is used to repay loans.

4.1.6. Based on the Selling Price of Grain at Harvest (X6)

The selling price of grain depends on the quality of the grain produced, so it is divided into two categories: the selling price of IDR 5,000/Kg and the selling price of IDR 4,000/Kg. The research

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results showed that for KUR-participating farmers, 82.5% sold at a price of IDR 5,000, while 17.5% sold at a price of IDR 4,000. This indicates that the quality of grain from People's Business Credit participants is very good compared to farmers who are not participants in People's Business Credit, as can be seen in Figure 7.

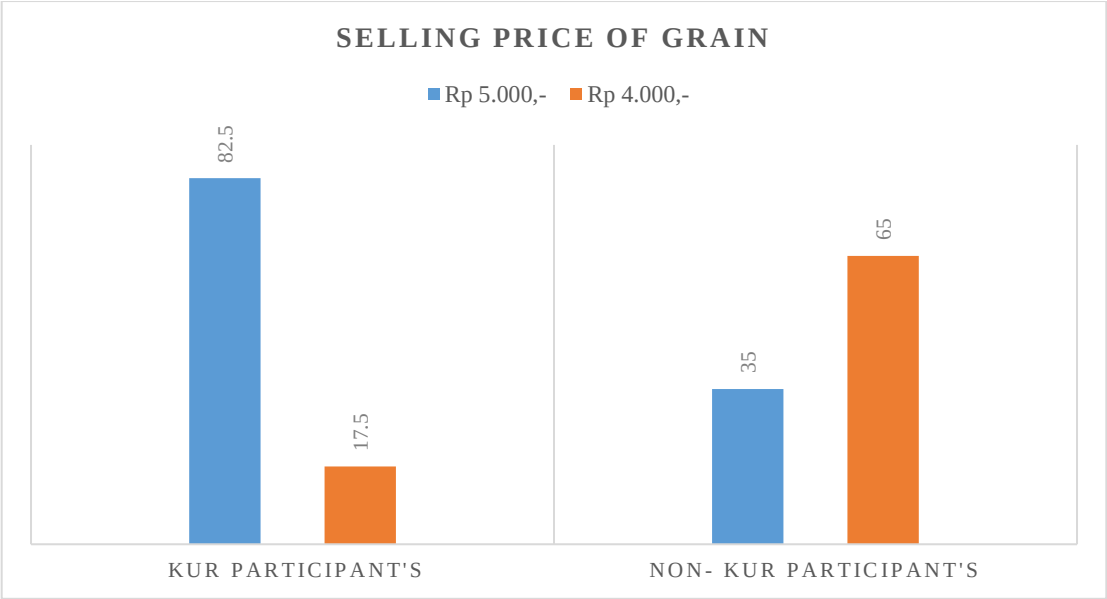

Figure 7.
Comparison of grain prices.

Based on the research results in Figure 7, it shows that People's Business Credit recipients get a higher grain price, namely 82.5%. This indicates that the quality of grain from participants is better than that of non-participant farmers. This occurs because, with capital from KUR loans, farmers can meet the needs for production facilities for their rice crops.

The challenge for microfinance institutions to be independent and serve the poor is significant. A useful strategy is to increase efficiency by reducing operational costs, followed by controlling credit risk [22]. The importance of strengthening production input capacity through government-subsidized financing/credit programs with low interest rates, the results of research in Bima City, with the existence of agricultural business financing assistance programs through credit schemes distributed by banking institutions, really helps farmers who do not have farming capital to grow their crops [23].

4.2. Test model Fit and Capability

In the multiple logistic regression analysis, a model fit test was carried out using the Hosmer and Lemeshow Test. The test results show that the significance value is $0.855 > \alpha = 0.05$, so the null hypothesis (H0) is accepted. Thus, it can be concluded that the model for farmers' decisions in utilizing People's Business Credit is significantly influenced by factors such as understanding the prohibition of usury, farming experience, land area, ease of obtaining, availability of farmer capital, and selling price of grain. Therefore, this model can be considered suitable or consistent with existing data.

Pseudo R Square, which can be measured through the Nagelkerke Square value, is used as an indicator to measure the model's capabilities. A Nagelkerke Square value close to 1.00 indicates good model capability. In this research, a Nagelkerke Square value was obtained of 0.726, which is quite close to 1.00. This indicates that the model has a good ability to explain 72.60% of the variations in the variables that influence the use of People's Business Credit. The remainder, amounting to 27.40%, is influenced by other factors not included in the model.

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The impact of microfinance institutions on Bosnia's Gross Regional Income is non-linear. Short-term fluctuations in microfinance institutions do not show a major influence on Bosnia's economic growth [24]. The model coefficient is 46.4%, indicating a weak relationship between microfinance institutions and economic growth.

4.3. Simultaneous Analysis of Factors that Influence People's Business Credit Decisions

Simultaneous testing of independent variables is carried out by comparing sign values from the results of the Omnibus test of the coefficient table with a significance level of $\alpha = 0.05$ or the Chi-square value (Omnibus Tests of Model Coefficients).

4.3.1. Statistical Hypothesis

Ho: bi = 0: The decision to use KUR is influenced in a non-significant way by understanding the prohibition of usury, farming experience, land size, ease of obtaining a loan, availability of farmer capital, and selling price of grain.

H1: at least bi ≠ 0: The decision to use KUR is significantly influenced by: understanding of the prohibition of usury, farming experience, land size, ease of obtaining a loan, availability of farmer capital, and selling price of grain.

Table 1.
Chi-Square analysis results.

		Chi-square	df	Sig.
Step 1	Step	62.534	6	0.000
	Block	62.534	6	0.000
	Model	62.534	6	0.000

The results of the analysis in Table 1 show that the Chi-square (X2) value in the table (Omnibus Tests of Model Coefficients) is 62.534, which is greater than the X2 value in the table = 9.66 or the significance value = 0.000 < $\alpha = 0.05$; therefore, H0 is rejected. In conclusion, the factors understanding the prohibition of usury, farming experience, land size, ease of obtaining loans, availability of farmer capital, and selling price of grain simultaneously have a significant influence on the decision to utilize people's business credit.

Table 2.
Results of R-squared analysis.

Model Summary			
Step	**-2 Log likelihood**	**Cox & Snell R Square**	**Nagelkerke R Square**
1	47.568[a]	0.542	0.726
Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	4.026	8	0.855

Furthermore, the results of the analysis in Table 2 show an R^2 (Nagelkerke Square) value of 0.726, which indicates that the decision to utilize People's Business Credit can be explained by factors that influence it, accounting for 72.60%, while the remaining 27.40% is influenced by other factors or variables not included in the model. With the real influence proven, the analysis and testing continue to the next stage, namely, partial test analysis.

Four factors impact competition in lending to people's businesses: social impact, performance, market structure, and relationships with other financial institutions. Therefore, microfinance institutions must adapt in disbursing their loans [25]. Small companies do not have the same access to bank credit as large companies [26]. The research results show that:

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1) BNI Farming Business Credit (KUR) influences the income of rice farmers in Betro Village, Kemlagi District, Mojokerto Regency. This indicates that with every additional People's Business Credit, farmers' income tends to increase.
2) BNI Farmer People's Business Credit (KUR) received a positive response from farmers and is very useful for increasing capital for rice cultivation because it is more profitable than private banks [27].

MASLOC, a microfinance institution offering long-term loans, plays an important role in poverty alleviation by strengthening income levels, improving consumption patterns, facilitating access to basic needs, and enabling the accumulation of valuable assets. It also fosters a positive attitude towards loan repayment. This study enriches the ongoing discourse around the impact of government microfinance schemes on their beneficiaries [28]

4.4. Partial Analysis of Factors that Influence People's Business Credit Decisions

The results of the analysis of factors influencing loan taking can be presented in Table 3.

Table 3.
Results of partial influence analysis on decisions to utilize the People's Business Credit program.

Variable/factor	B	S.E.	Wald	df	Sig.	Exp(B)
X1(Compliance with the prohibition on usury)	-3.556	1.162	9.367	1	0.002	0.029
X2 (Farming experience)	20.859	7438.998	0.000	1	0.998	0.000
X3(Land area)	0.698	0.777	0.807	1	0.369	2.010
X4 (Ease of Access to loans)	1.906	0.944	4.077	1	0.043	0.149
X5 (Availability of cash Capital)	2.331	0.971	5.760	1	0.016	10.291
X6 (Selling price of grain)	-1.599	1.051	2.318	1	0.128	0.202
Constant	6.115	1.414	22.443	1	0.000	0.007

The results of the analysis in Table 3 show that the variables with a significance level of <0.05 are those that have a real influence, namely X1 (compliance with the prohibition on usury), X4 (ease of access to loans), and X5 (availability of cash capital), while other variables, namely X2 (farming experience), X3 (land area), and X6 (selling price of grain), have less influence.

Table 4.
Results of partial influence analysis on decisions to utilize the People's Business Credit program.

Variable	Notation	Significant		
		Coefficient Regression	Sign.	Result
Compliance with the prohibition on usury	X1	-3.556	0.002	Significant
Farming experience	X2	20.859	0.998	Insignificant
Land area	X3	0.698	0.369	Insignificant
Ease of access to loans	X4	1.906	0.043	Significant
Availability of cash capital	X5	2.331	0.016	Significant
Selling price of grain	X6	-1. 599	0.128	Insignificant

The results of the research in Table 4 show that the variables of compliance with the prohibition on usury, ease of access to People's Business Credit, and initial availability influence respondents in determining participation in People's Business Credit, while farming experience, land area, and the selling price of grain have less influence.

Microfinance does not contribute to achieving the MDGs; the mission is to serve the poor. It apparently has little room to move in countries where the banking sector is developed. Cultural influences and policies are part of the success of microfinance development [29].

Empirical findings show that, during the pandemic, micro and small companies tended to borrow more, did not restructure debt, borrow from banks, or inject capital, reporting difficulties they faced in accessing credit [30].

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Outside the agricultural sector, external financing has a positive effect on MSME sales growth. Financing for research and development expenditures, production diversification, new employment opportunities, and advertising can significantly increase sales growth [31].

4.5. Production and Income of Rice Farmers

The average yield of grain production from People's Business Credit participants is 6,246 tons/Ha, while farmers who do not use People's Business Credit have an average yield of 6,320 tons/Ha. After selling the grain, farmers participating in People's Business Credit generate an income of IDR 15,298,023, whereas non-participating farmers earn Rp. 14,117,807.

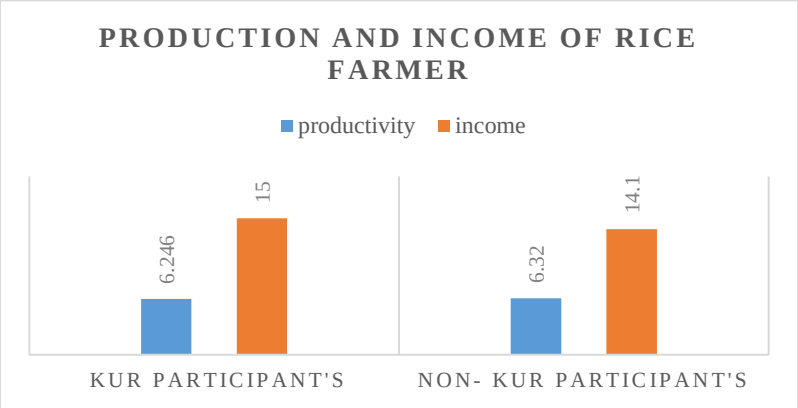

Figure 8.
Comparison of production and income of rice farmers.

Based on Figure 8, our finding is that not all sources of external funding have the same impact on innovation, growth, and production [32]. This research shows that among farmers participating in the People's Business Credit, total rice production is lower, but they have very good grain quality, so their income is higher than that of non-participating farmers. This indicates the willingness of farmers to increase income in order to reduce social inequality among farmers. Social disparities between regions are decreasing, and regional disparities are the main source of gaps in green financial development in the country [33].

4.6. Multiple Linear Regression Equations

Based on the results of the simultaneous influence analysis, the following regression equation is obtained:

$$Y = 0{,}002\ X1 + 0{,}998\ X2 + 0{,}369\ X3 + 0{,}043\ X4 + 0{,}016\ X5 + 0{,}128\ X6 + €\qquad (1)$$

Information: X1 (compliance with the prohibition on usury), X2 (farming experience), X3 (land area), X4 (ease of access to KUR), X5 (availability of cash capital), X6 (selling price of grain)

Meanwhile, the error can be calculated as $1 - R^2 = 1 - 0.726 = 0.274$, so there are other factors that are not calculated that influence People's Business Credit participation, including education, number of family dependents, and monthly expenses, which may also influence People's Business Credit participation. The findings of this research will be of interest to researchers, managers, policymakers, and evaluators and facilitate them in making the right decisions in their respective fields. It turns out that information and communication technology (ICT) is playing an increasingly large role in increasing the efficiency, profitability, and sustainability of microfinance institutions; therefore, to attract consumer interest, it is necessary to follow ICT [34].

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5. Conclusion

Based on the results and discussion, it shows that participation in taking People's Business Credit is influenced by understanding about usury, farming experience, land area, ease of access, availability of initial capital, and selling price of grain. What is very influential is understanding about usury, ease of access, and availability of capital.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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