Not quite ready to touch farmers’ lives holistically:

The Role of Agricultural People's Business Credit (Kredit Usaha Rakyat-KUR) Program in Karanganyar District, Central Java, in Indonesia

Country context

Overview of the agriculture sector

Indonesia is an agricultural country with an area of 7.46 million hectares of paddy fields. According to Databoks Katadata (2020), rice is Indonesia’s largest agricultural produce. The land area of rice farmlands in Indonesia was estimated at 10.68 hectares in 2019 (BPS, 2020). Meanwhile, the most consumed food in Indonesia are rice, corn, and tubers (BPS, 2020; Food Security Agency, 2020).

Rice is the top food source in Indonesia with an average direct household consumption of 94.9 kg/capita/year or about 2.5 million tons per month (Food Security Agency, 2020). Apart from being the highest contributor to Indonesia's national economic growth (16.24 percent), the agriculture sector is one of the supporting factors in preventing a food crisis in the rural communities during the COVID-19 pandemic.

Below is the general description of crop harvest area in Indonesia in the last five years.

Table 1. Size of land per crop

<table>
<thead>
<tr>
<th>Crops</th>
<th>Land Size (Hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>15,994,512</td>
</tr>
<tr>
<td>Corn</td>
<td>5,734,326</td>
</tr>
<tr>
<td>Soybean</td>
<td>680,373</td>
</tr>
<tr>
<td>Peanut</td>
<td>454,349</td>
</tr>
<tr>
<td>Green bean</td>
<td>197,508</td>
</tr>
<tr>
<td>Cassava</td>
<td>949,916</td>
</tr>
<tr>
<td>Yam</td>
<td>143,125</td>
</tr>
</tbody>
</table>

Source: Kementerian Pertanian Republik Indonesia (2019)

Microfinance is one of the keys to access to finance and is used as the main strategy in poverty alleviation. There are various sources and forms such as formal institutions — banks (Village Bank, Indonesia Credit Bank) or non-banks (pawnbroker, village barn) — and non-formal financial institutions (moneylenders, regular social gatherings). Microfinance institutions in the agriculture sector offer some assistance in the form of credit and savings to farmers.

This agricultural credit has faced several obstacles, which are influenced by several factors: a) lack of administrative services; b) the credit system does not follow the pattern of farmers' lives; c) accountability; d) poor access to credit for small farmers as most of them live far from the city; and, e) climate change which exacerbates the risk of crop failure (SMERU, 2000). Additionally, the development
and improvement of agricultural credit in Indonesia continues to be carried out and produces various formats from conventional to financial technology-based, such as peer-to-peer lending involving non-governmental institutions engaged in the micro and agricultural sectors (Octaviano, 2021).

One of the agricultural credit programs from the Indonesian government that has been running for a long time and has undergone many transformations is the People's Business Credit (KUR). The Government of Indonesia increased the budget allocation from IDR 50 trillion (approximately USD 3.508 billion) in 2020 to IDR 70 trillion (approximately USD 4.912 billion) in the 2021 State Budget (APBN) for the distribution of KUR, which is aimed to develop and cultivate agricultural commodities, horticultural crops, and plantations owned by farmers. The increase in budget allocation is a response to the food crisis and the ongoing COVID-19 pandemic, considering that the agriculture sector is the breadwinner of Indonesia's food security during the crisis.

**Situation of smallholder farmers and their sources of credit**

According to BPS (2020), the percentage of poor people in villages in 2019 was 12.6 percent, higher than that of poor people in cities, reaching 6.56 percent. The BPS also recorded that 49.41 percent of poor households in villages depended solely on the agriculture sector for their livelihood. In Indonesia, the Farmer Exchange Rate (NTP) is a farmer's welfare indicator proxy that describes farmers' purchasing power. The National NTP in July 2021 was 103.48, down by 0.11 percent from June 2021. Based on the State of Food Security and Nutrition in the World (SOFI) 2021 published by the Food and Agriculture Organization of the United Nations (FAO), low NTP causes low purchasing power and welfare, which contributes to the increase in poverty and malnutrition in villages. The decrease in Indonesia's NTP could be caused by the Public Activity Restriction (PPKM) since July 2021 due to increased COVID-19 cases.

Analyzing the situation of small farmers in Indonesia would be more accurate if we examine their definition. According to Naraya and Gulati (2002) in Small-scale Agriculture Existence in the Global Market Competition Era (Sumaryanto, 2010), small farmers can be defined through two lenses, namely, labor and income. Through the labor lens, small farmers are households whose livelihoods depend on farming, which is mostly handled by their own family members; while through the income lens, small farmers usually have low income. According to Sayogyo (1977), small farmers are measured based on their land size of less than half of a hectare. In the article *Perempuan Petani Menghadapi Berbagai Rintangan* (Ting, 2017), data in 2013 showed that 40 percent of smallholder farmers were women (around 7.4 million) and data in 2017 showed that around 13.7 million women worked in the agriculture sector. Women farmers in Indonesia are still facing difficulties in gaining access to and control of farmland. Based on the Agricultural Integrated Survey (AGRIS) 2020 (as cited in Databoks-Katadata, 2021), women who own farmlands make up only 5.07 percent, while men make up 21.67 percent. This is the reason why women do not often become smallholder farmers in Indonesia.
In *Performance of Uses and Sources of Rice Farm Business Working Capital* (Darwis, 2012), the sources of capital for farmers in Indonesia are divided into four, namely:

- Own capital, where farmers do not have to borrow from other parties or financial institutions. This capital can be in the form of land.
- Formal credit from legal financial institutions, such as pawnshops, cooperatives, and banks.
- Non-formal credit from individuals or organizations whose establishment is not bound to the law.
- Partnership between small business owners and medium or large business owners. This partnership is usually accompanied by mentoring for smallholder farmers from medium or large business owners so that there can be mutually beneficial relations.

In general, financial institutions can be divided into formal and non-formal institutions. Formal institutions offer various credit schemes, ranging from distribution system, services, interest rate, incentives, to sanctions. These schemes are made as simple as possible to ease debtors in accessing credit. Some examples of formal credit for farming in Indonesia are Agribusiness Microfinance Institutions, KUR for Agriculture, Farming Capital Credit from the People’s Credit Bank, Credit for Cooperatives, Watershed Small Business Credit Program, Food Security Credit, and others.

There are many non-formal credit institutions in villages. These can be individuals or organizations that are not regulated by the law. In such cases, the credit distribution system is implemented in accordance with the people’s aspirations. The trust built by these credit institutions is based on their image and intensity of relations with the debtors. One example of non-formal credit in Indonesia that farmers often use is the *Ijon* system,¹ which is a Javanese term that means a credit system whose payment is conducted after harvest with low selling prices from middlemen.

KUR is a form of capital assistance for Indonesian farmers who have been impacted by the COVID-19 pandemic. According to Airlangga Hartarto, Coordinating Minister for Economic Affairs, the amount of KUR in the agriculture sector in 2021 for each subsector is as follows (Syukra, 2021):

- IDR 9.5 trillion (approximately USD 668 million) for palm oil;
- IDR 7.8 trillion (approximately USD 548 million) for rice farming;
- IDR 5.5 trillion (approximately USD 387 million) for other plants and forestry;
- IDR 5.2 trillion (approximately USD 366 million) for horticultural farming;
- IDR 3.9 trillion (approximately USD 274 million) for cow breeding and cultivation;

¹Sales of plant products that are green or have not been picked from the stems (in the fields, etc.).
- IDR 3.5 trillion (approximately USD 246 million) for goat and sheep breeding and cultivation;
- IDR 2.7 trillion (approximately USD 190 million) for *palawija* farming;
- IDR 2.6 trillion (approximately USD 183 million) for mixed farming; and,
- IDR 1.1 trillion (approximately USD 77 million) for seeding, cultivation, and other services.

So far, in 2021, realization of KUR distributed to crops has only reached 26.9 percent or IDR 7,788,971,820,122 (approximately USD 546.769 million) from the target of IDR 26,812,189,000,000 (approximately USD 1.881 billion). As KUR is expected to help the economy of farmer households as well as Indonesia during the pandemic, several attempts have been made to make sure the KUR program is successful, such as additional KUR fund targets and simpler mechanisms. In reality, smallholder farmers still face difficulties in accessing KUR because they do not have collateral (Rahma, 2019).

**The research study**

**Statement of the problem**

The KUR program is the government's attempt to expand access to funding for micro, small, medium enterprises (MSMEs), including agriculture, livestock, and fisheries. Outside of this study, amid the government's efforts to expedite the distribution of KUR, several financial institutions that distribute the KUR, such as banks and cooperatives, are facing obstacles in distributing KUR to smallholder farmers. The obstacles include internal problems such as access, scheme, interest, requirements, and payment as well as external problems, such as competition with non-formal credit institutions that have flourished among the people.

**Objectives of the study**

This country case study on public agricultural production credit assistance in was conducted in pursuit of the following three specific objectives:

- Examine the implementation of BRI-KUR program as credit assistance for farmers in Karanganyar, Central Java;
- Analyze sources of capital that are often accessed by farmers (pluses and minuses of the support, challenges and obstacles); and,
- Provide recommendations for better capital/credit assistance for farmers.

**Methodology**

According to BPS (2020), the rice consumption rate in 2020 in Indonesia was 31.31 million tons, meaning that Indonesia's staple food is dominated by rice, compared to other staple foods, such as corn, soybean, and tubers. Furthermore, Indonesia's
geographical location between two continents (Asia and Australia) and two oceanic divisions (Indian Ocean and Pacific Ocean), causes it to have two seasons (dry and rainy) and become one of the agrarian countries in Southeast Asia.

With above conditions, this study attempted to explore the agricultural credit program from KUR led by BRI used by small farmers in Karanganyar Regency. This study focused on two sub-districts in Karanganyar Regency, namely Jumapolo and Jatipuro as these two sub-districts have extensive agricultural land, especially rice. This study was divided into two main activities. First, profiling the smallholder farmers for a particular topic on agricultural finance to identify the financial support of the smallholder farmers. Second, in-depth interviews and focus group discussions (FGD) for more understanding of the local contexts of the smallholder farmers. The interview series was designed for self-reliant rural communities (KSPs), farmer organizations (FOs), farmer’s family, and stakeholders (local). Both activities were conducted by researchers using the guidelines for different informants (see Table 2).

Table 2. Key Informants of this Study

<table>
<thead>
<tr>
<th>Type</th>
<th>Key Informants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers (individuals and organizations)</td>
<td>Farmer Group Association (Gapoktan) in Jatipuro Sub-district</td>
</tr>
<tr>
<td></td>
<td>Women beneficiaries of KUR program</td>
</tr>
<tr>
<td>Government</td>
<td>Department of Agriculture</td>
</tr>
<tr>
<td></td>
<td>Department of Cooperatives and SMES</td>
</tr>
<tr>
<td></td>
<td>Village Government</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Ngudi Makmur Cooperative</td>
</tr>
<tr>
<td>Bank</td>
<td>BRI</td>
</tr>
<tr>
<td></td>
<td>Bank in Central Java as agricultural KUR distributor</td>
</tr>
</tbody>
</table>

In collecting data, the researcher used several methods to represent the required information, such as literature study, in-depth interviews, and FGD. As the number of COVID-19 cases in Indonesia increased, the research team minimized fieldwork to avoid direct contact. Therefore, Bina Desa mainly implemented online-based data collection (telephone, Zoom, Skype, and others) to minimize the mobilization and spread of COVID-19 (refer to Table 3).

**Overview of selected farmers and crop**

Over the last three years, Indonesia's rice production based on FAO data increased to 54.65 million tons in 2020. This figure makes Indonesia the third largest rice-producing country in the world. It can be seen from BPS data from 2014 to 2018 that rice was harvested in areas covering 15,994,512 hectares in Indonesia, with 29.59 percent or 38.77 million of Indonesian workers working in the agriculture sector. One of the contributors to rice in Indonesia is Karanganyar Regency, Central Java. Karanganyar became the national rice barn in 2017 with 26,500 hectares of rice fields and a rice yield of 342,552 tons.
Karanganyar had 931,963 people in 2020 (BPS), consisting of 464,784 men and 467,179 women. In this study, researchers determined the number of farmers who would be research subjects in two sub-districts, namely Jumapolo and Jatipuro (refer to Table 4).

Table 3. Data Collection Method

<table>
<thead>
<tr>
<th>Data collection method</th>
<th>Information gathered</th>
</tr>
</thead>
</table>
| Literature review      | • General information about agri-finance in Indonesia (microfinance)  
                        | • Agricultural value chain |
| Media monitoring       | • Background of the credit program  
                        | • Financial support in the agricultural sector |
| In-depth interview with KSP’s farmers (online) | • Personal profile of farmer  
                                                      | • Availability of support services (financial, assistance, agricultural inputs)  
                                                      | • Credit/financial support (source, use of credit, access/ mechanism, challenges and obstacles) |
| In-depth interview with FO | • General profile of farmer in KSP (characteristics)  
                              | • Availability of support services (financial, assistance, agricultural inputs)  
                              | • Credit/financial support (source, use of credit, access/ mechanism, challenges, and obstacles) |
| In-depth interview with stakeholders | • Availability of support services (financial, assistance, agricultural inputs)  
                                               | • Credit/financial support (source, use of credit, access/ mechanism, challenges, and obstacles) |
| FGD with FOs’ staff on the region level | • General profile of farmer in KSP (characteristics)  
                                               | • Availability of support services (financial, assistance, agricultural inputs)  
                                               | • Credit/financial support (source, use of credit, access/ mechanism, challenges and obstacles) |
| FGD with farmers on the region level | • General profile of farmer in KSP (characteristics)  
                                               | • Availability of support services (financial, assistance, agricultural inputs)  
                                               | • Credit/financial support (source, use of credit, access/ mechanism, challenges and obstacles) |

Table 4. Number of Selected Farmers

<table>
<thead>
<tr>
<th>Data collection</th>
<th>Number of Selected Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
</tr>
<tr>
<td>In-depth interview FOs</td>
<td>4</td>
</tr>
<tr>
<td>In-depth interview Farmers</td>
<td>4</td>
</tr>
<tr>
<td>FGD FOs</td>
<td>3</td>
</tr>
<tr>
<td>Group Interview Farmers</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
</tr>
</tbody>
</table>
Description of the selected farmers

The farmers that the researchers chose in this study have land for farming (rent/pawn/own), with an average land ownership of 0.1 to 1 hectare (small and medium farmers) and an average number of four to five family members.

The selected crop

The plants selected in this study are food crops that are widely consumed in Indonesia, including in Karanganyar Regency, namely paddy. Seeds that are often planted in Karanganyar include Ciherang, Mekongga, and Situbagendit with a direct sowing system or what is often called a *tabela*. The average rice planting in Karanganyar is for six months, with harvesting done on the sixth month.

Role of credit in agricultural development of smallholder farmers

According to the Central Bureau of Statistics (BPS), the agricultural sector contributes significantly to Indonesia’s gross domestic product (GDP). Agriculture is also the only sector of the main buffer of GDP that grew positively throughout 2020 (Timorria, 2020). The contribution of the agriculture sector has an effect on the economic growth of the people in Indonesia, especially in the second quarter of 2020 where the contribution of agriculture rose to 15.6 percent compared to the contribution in the first quarter of 2019 of 13.57 percent (BPS, 2020). By 2021, the agriculture sector will contribute 13.7 percent to Indonesia’s GDP.

The contribution is also accompanied by an increase in the quantity and quality of agricultural products. Increasing the quantity and quality of production requires capital increase. In this case, it is necessary for certain institutions to support the development of agricultural contributions by distributing credit to the agricultural sector, especially credit for small farmers in Indonesia. Thus, it can be interpreted that credit plays a role in the development of the agriculture sector, especially agriculture in Indonesia.

Role of credit in agricultural development of Indonesia

The strategic plan of the Ministry of Agriculture outlines its main objective in national development for the period 2010 to 2014 as the achievement of self-sufficiency and sustainable self-sufficiency with the focus on five nationally superior commodities, namely: a) rice; b) corn; c) soybeans; d) sugar; and, e) beef. In this case, rice is also a strategic commodity and becomes a national priority in the RPJMN (National Medium Term Development Plan) 2020 to 2024. However, in agricultural development, especially rice crop development, farmers often experience problems especially in increasing production such as: the ongoing process of land conversion; the tendency of rice productivity to stagnate; increasingly limited production facilities; and, lack of capital for farmers.
Farmers' ability to finance their own farming business is limited, which leads to their productivity staying below potential. Other problems faced by small farmers are limited land ownership, high wages, and low employment opportunities during off-season. Most farmers are unable to meet their costs of living from season to season without resorting to loans. Furthermore, the climate crisis affects the development of the agriculture sector.

Small farmers face various challenges in Indonesia, including limited access to business services, especially the availability of working capital for the productivity and welfare of farmers. Farmers need capital assistance support in the form of loans to overcome these problems. Thus, credit is a breath of fresh air for small farmers in Indonesia, especially regarding capital for farming.

Within the context of farming, credit is referred to as agricultural credit, which is distributed to the agricultural business sector, such as livestock and plantations (Bengi, 2019). This credit can be distributed to small farmers in the countryside. Agricultural credit is not merely a driving factor in agricultural development. It is also a critical point of agricultural development (Syukur et al. in Ashari, 2009). For farmers, it allows one to gain access or expand control over resources (Directorate of Financing in Ashari and Friyatno, 2006).

Rice farming provides jobs and various income sources for around 21 million farm households (Swastika, 2007). One research found that rice productivity in Indonesia experiences an upward trend every year, but the climb tends to slow down (Abubakar, 2020). It is also said that productivity in the rice sector can only be achieved by increasing the number of inputs or implementing new technology. Additional inputs or implementation of new technology will be followed with increased capital, either owned or loaned (credit). This capital is very much needed in economic development, and credit is the answer to the difficulties in obtaining capital.

According to BPS in 2015 (in Abubakar, 2020), 90.6 percent of rice farmers use their own funds in running their businesses, while 9.4 percent use loans from financial institutions (banks, BPR, cooperatives, and other financial institutions) and individuals (moneylenders). In a research study by Darwis (2020), rice farmers who receive credit have higher productivity than those without credit in Java, meaning that the role of credit is important for small rice farmers.

Research by Feryanto (in Ashari et al., 2020) stated that credit affects the increase in farmers' incomes. Ashari (2009) said that credit propels agricultural development by: a) helping small farmers in overcoming capital limitations with relatively light interest; b) reducing the dependence of farmers on intermediary traders and releasing money so that it can play a role in improving the structure and pattern of marketing agricultural products; c) income transfer mechanisms to encourage equity; and, d) incentives for farmers to increase agricultural production.
In Indonesia, there are many institutions that are involved in agricultural credit, especially in its distribution, ranging from government institutions to financial institutions in the village. In distributing KUR or agricultural credit, the government works with 46 KUR distributors consisting of government banks, private banks, BPD, financing companies, and savings and loans cooperatives (KSP). The KUR program is also supported by 10 credit guarantee agencies. In order to safeguard Good Corporate Governance in KUR distribution, the government also works with the Financial Services Authority (OJK) and the Finance and Development Supervisory Agency (BPKP).

**Policy environment on government agricultural credit**

Various policies have been issued to improve the rice production of small farmers, such as building irrigation; subsidies for seeds, fertilizers, and pesticides; subsidized agricultural credit; and, training on farming. The government has also issued a basic grain price or government purchase base price to protect farmers from instances when the prices drop below production cost. The government has also implemented an import policy to fulfill increasing domestic needs and ensure that the price of rice is affordable for most consumers. The economic crisis in 1998 when food security was threatened due to increasing price of rice has caused Indonesia’s policy on rice to still be based on production targets (Damita and Sujianto, 2013).

The increase in rice productivity target can only be achieved by adding more inputs or implementing new technology, which is always followed with more capital, from either the farmers or credit. Capital is a classic problem in development. Agricultural credit from banking can become an important landmark in improving the economy of small farmers in the agriculture sector.

After Indonesia’s independence, the government provided assistance in the form of credit programs for farmers. These credit programs, which support the implementation of certain programs, are very dynamic in accordance with the target (commodities or credit beneficiaries), procedure, time span, and establishment of program success indicators. These credit programs have an agenda to achieve national rice self-sufficiency (Ashari, 2009). These credit programs are followed with policies on credit by the government that have started since the beginning of the New Order era or around 1973, which began with the Bimas credit policy.

Based on the credit policies from 2015 to 2020, the government provided financing for MSMEs that was previously under the guarantee services (JP) scheme to the interest/margin subsidy scheme, where the government bears some interest borne by debtors (MSME owners or farmers). This interest subsidy is given based on the subtraction of credit interest rate with the interest rate borne by debtors or beneficiaries (farmers and MSME owners).
Besides focusing on reducing the interest rate of KUR in the 2015 to 2020 period, the government also focused on distributing KUR to the production sector because KUR had been mostly distributed to debtors in the trading/retail sector. Therefore, the Policy Committee in January 2017 decided to target at least 40 percent of KUR distribution to the production sector (agriculture, fisheries, processing industry, construction, services, and others).

In 2018, the government committed to improve KUR distribution for paddy dryer procurement. This scheme was prioritized for small milling businesses with productive and adequate activities. The distribution of KUR for rice milling and Indonesian rice entrepreneurs (*perpadi*) involved the National Logistics Agency (Bulog), which plays a role in absorbing the harvest of *perpadi*. This KUR distribution for the paddy dryers used the KUR Kecil scheme with the limit at IDR 25 million to IDR 500 million (approximately USD 1,700 to USD 35,000).

In 2020, the optimization of KUR utilization kept increasing every year, and its ceiling increased to IDR 190 trillion (approximately USD 13.357 billion). The KUR policy in 2020 was also made to expedite the development of MSMEs and to coincide with the release of the Job Creation Bill. The policy went through several changes that provided more benefits to the people, such as lowered interest rate from seven to six percent, increased KUR Mikro ceiling from IDR 140 trillion to IDR 190 trillion (from USD 9.842 billion to USD 13.357 billion), which will also be increased to IDR 325 trillion (approximately USD 22.848 billion) by 2024, and increased KUR Mikro ceiling from IDR 25 million to IDR 50 million (from USD 1,800 to USD 3,500) per beneficiary or, in this case, per farmer/farmers business (KUR website).

In 2021, the KUR policy is a part of the national economic recovery efforts, as stipulated in Regulation of the Coordinating Minister for Economic Affairs (Permenko Perekonomian) No. 6/2020 as amended with Permenko Perekonomian No. 3/2921 on KUR special treatment during the COVID-19 pandemic. The government has prepared agricultural KUR of IDR 70 trillion (approximately USD 4.921 billion) out of IDR 253 trillion (approximately USD 17.786 billion) in total.

The absorption realization of the agricultural KUR has so far reached IDR 426 trillion (approximately USD 29.949 billion) or 60.8 percent. While the distribution of agricultural KUR for the paddy subsector in 2021 is IDR 7.8 trillion (approximately USD 548 million) (Coordinating Economic Affairs Minister, 2021 in Harahap, 2021). This policy also enforces extension of additional interest/margin subsidy for KUR debtors whose businesses were affected until 31 December 2021.

Postponement for installment payment and extension of loan term as well as raised credit ceiling are also given to debtors, including farmers.
Government credit program for small farmers

**Rationale for choice of BRI-KUR**

BRI-KUR was selected for this research because out of various agricultural credit programs in Indonesia, BRI has the highest number of debtors and loan ceilings. The table below lists the banking and non-banking institutions appointed by the government to distribute KUR in Indonesia.

Table 5. People’s Enterprise Credit Distribution

<table>
<thead>
<tr>
<th>No.</th>
<th>Distributor</th>
<th>Total Distribution of KUR</th>
<th>Ceiling (IDR)</th>
<th>Number of Debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PT. Bank Rakyat Indonesia (Persero), Tbk.</td>
<td></td>
<td>58,397,886,002,269</td>
<td>2,093,475</td>
</tr>
<tr>
<td>2</td>
<td>PT. Bank Mandiri Indonesia (Persero), Tbk.</td>
<td></td>
<td>13,102,218,299,000</td>
<td>135,538</td>
</tr>
<tr>
<td>3</td>
<td>PT. Bank Negara Indonesia (Persero), Tbk.</td>
<td></td>
<td>9,901,483,435,120</td>
<td>100,326</td>
</tr>
<tr>
<td>4</td>
<td>PT. Bank Tabungan Negara (Persero), Tbk.</td>
<td></td>
<td>61,805,100,000</td>
<td>222</td>
</tr>
<tr>
<td>5</td>
<td>PT. Bank Central Asia, Tbk.</td>
<td></td>
<td>77,495,844,077</td>
<td>569</td>
</tr>
<tr>
<td>6</td>
<td>PT. Bank Bukopin, Tbk.</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>PT. Bank Maybank Indonesia, Tbk.</td>
<td></td>
<td>11,150,000,000</td>
<td>24</td>
</tr>
<tr>
<td>8</td>
<td>PT. Bank Sinarmas, Tbk.</td>
<td></td>
<td>240,591,964,500</td>
<td>852</td>
</tr>
<tr>
<td>9</td>
<td>PT. Bank Permata, Tbk.</td>
<td></td>
<td>3,026,000,000</td>
<td>13</td>
</tr>
<tr>
<td>10</td>
<td>PT. BTPN, Tbk.</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>PT. OCBC NISP, Tbk.</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>PT. Bank Artha Graha Internasional, Tbk.</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>PT. BRI Syariah, Tbk.</td>
<td></td>
<td>1,981,802,985,054</td>
<td>32,272</td>
</tr>
<tr>
<td>14</td>
<td>PT. BRI Agroniaga, Tbk.</td>
<td></td>
<td>13,061,251,000</td>
<td>97</td>
</tr>
<tr>
<td>15</td>
<td>PT. Bank CTBC Indonesia</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>PT. Bank Nationalnobu, Tbk.</td>
<td></td>
<td>1,796,000,000</td>
<td>433</td>
</tr>
<tr>
<td>17</td>
<td>PT. Bank Mandiri Taspen</td>
<td></td>
<td>13,727,000,000</td>
<td>342</td>
</tr>
<tr>
<td>18</td>
<td>PT. BNI Syariah, Tbk.</td>
<td></td>
<td>602,305,783,810</td>
<td>3,183</td>
</tr>
<tr>
<td>19</td>
<td>PT. Bank Syariah Mandiri</td>
<td></td>
<td>45,061,000,000</td>
<td>396</td>
</tr>
<tr>
<td>20</td>
<td>PT. BPD Bali</td>
<td></td>
<td>292,263,000,000</td>
<td>2,796</td>
</tr>
<tr>
<td>21</td>
<td>PT. BPD Kalimantan Barat</td>
<td></td>
<td>83,456,600,000</td>
<td>707</td>
</tr>
<tr>
<td>22</td>
<td>PT. BPD NTT</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>23</td>
<td>PT. BPD DIY</td>
<td></td>
<td>133,509,500,000</td>
<td>1,997</td>
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<table>
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<tr>
<th>No.</th>
<th>Distributor</th>
<th>Total Distribution of KUR</th>
<th>Ceiling (IDR)</th>
<th>Number of Debtors</th>
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<tr>
<td>24</td>
<td>PT. BPD Sulselbar</td>
<td></td>
<td>29,779,840,000</td>
<td>359</td>
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<tr>
<td>25</td>
<td>PT. BPD Sumut</td>
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<td>239,427,000,000</td>
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<td>26</td>
<td>PT. BPD Sumatera Barat (Bank Nagari)</td>
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<td>533,578,500,000</td>
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<td>27</td>
<td>PT. BPD Sumatera Selatan Babel</td>
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<td>234,669,400,200</td>
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<td>28</td>
<td>PT. BPD Jawa Barat dan Banten, Tbk.</td>
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<td>PT. Bank NTB Syariah</td>
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<td>PT. BPD Lampung</td>
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<td>PT. BPD Papua</td>
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<td>19,378,000,000</td>
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<td>PT. BPD Kalimantan Tengah</td>
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<td>9,010,168,740</td>
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<td>41</td>
<td>PT. BPD Jawa Timur, Tbk.</td>
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<td>-</td>
<td>-</td>
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<td>42</td>
<td>PT. Internusa Tribuana Citra Multi Finance</td>
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<td>1,119,024,000</td>
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<td>43</td>
<td>PT. Indosurya Inti Finance</td>
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<td>44</td>
<td>PT. First Indo American Leasing</td>
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<td>-</td>
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<td>45</td>
<td>Koperasi Obor Mas</td>
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<td>Koperasi Kospin Jasa</td>
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<td>47</td>
<td>KSP Guna Prima Dana</td>
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<td>5,357,000,000</td>
<td>151</td>
</tr>
</tbody>
</table>

Total 88,089,649,286,914 240,549

Source: KUR data (30 April 2021)
As quoted from the KUR’s official website, the KUR program is one of the government’s programs that aim to increase access for MSMEs to funding distributed by financial institutions under a guarantee scheme. The KUR program is intended for strengthening capital in order to implement the policy of accelerating the development of the real sector and UMKM empowerment (KUR, 2016a).

KUR has a relatively low interest of six percent per year because it is a program of the government. Farmers make use of KUR to obtain funding assistance as initial capital for farming. The distributors of KUR include not only State-owned banks, but also private banks.

Furthermore, BRI's KUR target in 2021 is higher compared to other banks at IDR 70 trillion (approximately USD 4.921 billion), targeting farmers and agribusiness owners. BRI is also expanding financial access for the public through BRILink, which is located in all villages, even the remote ones, so that people can conduct transactions anytime and anywhere, including paying KUR.

As one of the largest State-owned banks, BRI offers KUR with easy requirements and fast process. The maximum credit that customers can apply for is IDR 50 million (approximately USD 3,500), with flexible installments up to 24 months. Customers must submit an ID card, family card, and business license through online registration. They will then receive their credit in one day.

This is in line with the statements by farmers who have received KUR that BRI provided convenient services for farmers in applying for credit or if there was a delay in the installment payment. First, the collateral requirements are not required in the form of house or land ownership certificates. Second, if debtors are late in paying their installment, BRI will use a softer approach compared to private banks or cooperatives. Third, there is a new payment scheme, called the pay-harvest payment, which is an excellent innovation for farmers.

**Description of BRI-KUR agricultural credit**

- **Objective of BRI-KUR program**

BRI-KUR Agricultural Credit is one of the agricultural credit programs in the form of business capital loan distributed by Bank BRI. The program helps farmers in running their farm. The application for KUR-BRI can be conducted online (via kur.bri.co.id) without having to go to the bank.

Based on the FGD with banks, the overall aim of the agricultural KUR is to provide farmers with capital to expand their business. This is supported by the 2020 Credit Program Handbook, which mentions several goals of KUR, namely: a) provide reference for stakeholders at the central and regional level in distributing KUR to the agricultural sector; b) improve KUR distribution to farmers, farmer groups, the association of farmer groups (Gapoktan), and other agribusiness owners; c) support the programs implemented by the Ministry of Agriculture (food crops, horticulture,
plantations, and others); and, d) help expand work opportunities in the agriculture sector.

Based on BRI’s bookkeeping records up to the end of the second quarter, BRI has distributed credit worth IDR 117.54 trillion (approximately USD 8.206 billion) to the agricultural sector, which is an increase of 12.8 percent compared to the same period last year. Until March 2021, the total amount of agricultural credit distributed by BRI reached 28.03 percent of the national agricultural credit. BRI has reached 40,798 customers with credit distribution up to IDR 4.1 trillion (approximately USD 287 million) by June 2021.

● Coverage of program

KUR program is a partial government-guaranteed credit program intended to assist “feasible yet unbankable” (lack of collateral) SMEs’ access to banking loans (Adam & Lestari, 2017). KUR is designed to enhance capabilities of individuals or SMEs to access the banking loans in improving their competitiveness. It was established in late 2007 (5 November 2007) by the government enacted Presidential Instruction No. 6/2007 on Acceleration of the Real Sector Development and MSME Empowerment and it involved three parties: the Indonesian government (Ministry of Finance and other technical ministries); participating banks; and, credit guarantee companies (CGCs). The funding for KUR comes from banking funds or financial institutions that distribute KUR. The coverage of the KUR program is divided into three categories:

a. Micro KUR: up to IDR 25 million
b. Retail KUR: IDR 25 to 500 million
c. KUR TKI (Indonesian workers): up to IDR 25 million (placement to Asian countries)

The BRI-KUR program covers all regions in Indonesia as BRI has programs that are able to reach remote areas.

● Clientele (target and actual)

Recipients of the BRI-KUR program are individuals (farmers) or farmer groups. The program aims to spend IDR 170 trillion (approximately USD 11.92 billion) in 2021. Up until the second quarter, the BRI has distributed IDR 117.54 trillion (approximately USD 8.206 billion) in credit to the agriculture sector.

The program does not specifically target small farmers. As explained in the KUR Technical Guide Book, the definition of farmer is an Indonesian citizen that manages business in the agriculture sector that includes the upstream, on farm, and downstream.

Source: https://kur.ekon.go.id/
**Types and amounts of loans and other financial assistance**

The BRI-KUR program for agriculture is one of the programs by the Ministry of Agriculture to make it easier for farmers to gain capital for farming. The KUR for the agricultural sector, or often called KUR Mikro, has several requirements, namely: a) every debtor has a maximum credit limit of IDR 25 million to IDR 50 million (approximately USD 1,700 to USD 3,500); b) annual interest rate of six percent or 0.41 percent per month; c) no provisions or administration fee; and, d) maximum term of three years for working capital credit (KMK) and five years for investment credit (KI).

Based on the information from kur.bri.co.id, the requirements for debtors of agricultural KUR are: a) farmers (individual), farmer groups, Gapoktan, cooperatives, and business group; b) own business in the agricultural sector whether upstream, cultivation, or downstream that has run for at least six months; c) not currently receiving credit/funding from other banks or the government, as proven by the result of Debtor Information System (SID); d) administrative requirements include ID card, family card, business certificate from the village government; e) prepare collateral, such as BPKP or land certificate in accordance with the bank provision; and, f) debtor must be at least 21 years old or married.

Business in the agriculture sector or agribusiness consists of: a) upstream subsystem [economic activities that produce agricultural inputs such as fertilizers, pesticides, and farming machine]; b) primary farming subsystem [cultivation]; c) downstream subsystem [manage and market agricultural commodities, such as rice milling, procurement and marketing of agricultural products]; and, d) supporting subsystem [supporting services such as technology and capital] (psp.pertanian.go.id).

**Support service**

The BRI-KUR program only provides two types of capital loan services, namely KMK for farmland cultivation and KI for purchasing farming tools. Capacity building for farmers, such as how to manage their finances and develop their farm, is not included in the BRI-KUR benefit.

**Repayment rates**

BRI provides two payment options that can be agreed with the debtors, namely monthly installment or payment after harvest (based on the cultivated plant). For example:

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2 However, if the debtor is currently receiving consumptive credit (house credit, vehicle credit, credit card, and other consumptive credits), they can still receive KUR.
3 If the individual is a member of a business or farmer group, a recommendation letter from the Chairperson of the farmer organization is required.
a. Debtors or farmers borrow IDR 20 million to IDR 500 million (approximately USD 1,402 to USD 35,095), they choose to pay monthly installments with a term (12 to 36 months).

b. Debtors or farmers borrow IDR 20 million to IDR 500 million (approximately USD 1,402 to USD 35,095), they choose to pay installments after they finish harvesting; for instance, after rice is harvested once in six months, then s/he will pay for 12 to 36 months.

In 2020, BRI has claimed that the repayment rate of KUR financing is well-performed at 88 percent with the ratio of non-performing loans (NPL) of KUR BRI is still very low at only 0.06 percent.

● Sanctions for non-repayment of loans

The common sanctions for Non-Performing Loan (NPL) are to confiscate the debtor's assets by the bank. In the KUR program, the policy for NPL has been designed to be more MSMEs-friendly. If the NPL is caused by a disaster, the concern of the risk of default on KUR will be covered by the guaranteed institution that has been established by the government (80 percent) and will be carried over by the linkage banks (20 percent) with some follow-up schemes.

In handling debtors who are late in paying their credits, BRI will usually give a warning first and conduct restructuring and rescheduling. In restructuring, the bank and debtors can readjust the credit to the debtor's earnings so that the debtor can repay the credit, while in rescheduling, the debtor has the option to change the due date for payment. Before rescheduling, the debtor will usually be given a warning first. Rescheduling is the last resort for debtors who cannot pay their credit on time. If debtors are still not able to pay their credit, the bank will confiscate their collateralized assets and the debtors will not be able to obtain capital credit from the banks registered in BI Checking.

● Credit channel

The BRI-KUR program grants loans to debtors through 10,396 BRI branches in Indonesia. In addition, BRI has a service without an office, BRILink, which can help debtors pay deposits per month without having to go to the bank. In 2019, there were 422,160 BRILink agents in Indonesia including in rural villages (Republika.co.id, 2019).

Impact of COVID-19 pandemic on BRI-KUR agricultural credit program

The COVID-19 pandemic has affected the agricultural sector, especially vegetable commodities, livestock, and some agricultural products. The impact experienced by farmers during the pandemic should have received the attention of the government because the agricultural sector has a very important role in supporting the economy at the time of the pandemic. This is because the agricultural sector is a supporting sector of food security. This opens the opportunity for the agricultural sector to be revitalized so that it can contribute significantly to the national economy.
However, the pandemic has negatively affected farmers’ income. Therefore, farmers, especially the vulnerable ones, need capital to make sure that they can still fulfill their needs. During the pandemic, market access of small farmers was increasingly limited and products could only be sold in the local market at a relatively cheap price. In addition, prices of other needs also increased, including the prices of agricultural inputs, which caused farmers to become even more vulnerable. This is also supported by data from the BPS (2020) which showed the NTP of farmers in August 2020 decreased by 1.98 percent compared to July 2020.

The decrease in farmers’ income due to the COVID-19 pandemic affects the return of their loans if they are customers of financial institutions. It will also be more difficult for farmers to get credit from financial institutions (banking/non-banking) because financial institutions will be more careful in distributing credit.

Table 6. Conditions of rupiah working capital loans and foreign exchange for agricultural, forestry and fisheries business groups for the period of April 2019 to June 2020 (IDR billion)

<table>
<thead>
<tr>
<th>Month</th>
<th>Bank Persero (Company Bank)</th>
<th>Bank pemerintah (Government Bank)</th>
<th>Bank swasta nasional (National Private Bank)</th>
<th>Bank parkreditan rakyat (People’s Credit Banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2019</td>
<td>77,643</td>
<td>8,220</td>
<td>53,502</td>
<td>5,909</td>
</tr>
<tr>
<td>July 2019</td>
<td>77,840</td>
<td>8,128</td>
<td>54,145</td>
<td>5,873</td>
</tr>
<tr>
<td>August 2019</td>
<td>78,124</td>
<td>8,142</td>
<td>54,884</td>
<td>5,972</td>
</tr>
<tr>
<td>September 2019</td>
<td>80,095</td>
<td>8,270</td>
<td>56,663</td>
<td>6,082</td>
</tr>
<tr>
<td>October 2019</td>
<td>79,013</td>
<td>8,282</td>
<td>54,180</td>
<td>6,083</td>
</tr>
<tr>
<td>November 2019</td>
<td>82,274</td>
<td>8,302</td>
<td>55,613</td>
<td>6,107</td>
</tr>
<tr>
<td>December 2019</td>
<td>80,731</td>
<td>8,302</td>
<td>55,613</td>
<td>6,107</td>
</tr>
<tr>
<td>January 2020</td>
<td>80,017</td>
<td>7,693</td>
<td>52,751</td>
<td>6,107</td>
</tr>
<tr>
<td>February 2020</td>
<td>83,017</td>
<td>7,810</td>
<td>54,856</td>
<td>6,107</td>
</tr>
<tr>
<td>March 2020</td>
<td>84,755</td>
<td>7,902</td>
<td>59,518</td>
<td>6,107</td>
</tr>
<tr>
<td>April 2020</td>
<td>85,091</td>
<td>7,869</td>
<td>59,222</td>
<td>6,107</td>
</tr>
<tr>
<td>May 2020</td>
<td>84,755</td>
<td>7,804</td>
<td>56,485</td>
<td>6,107</td>
</tr>
<tr>
<td>June 2020</td>
<td>88,757</td>
<td>7,556</td>
<td>57,582</td>
<td>6,107</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia (2020)

From the table above, it can be seen that banking credit for the agricultural sector from *persero* banks, government banks, national private banks, and people's credit banks (BPR) did not experience significant changes or tended to be constant during the COVID-19 pandemic. Credit growth, which slowed overall in 2020, was also recorded in the survey at 2.5 percent compared to credit realization in 2019 of 6.1 percent.

To encourage MSMEs and farmers to try to farm during the COVID-19 pandemic, the government established a National Economic Recovery Program (PEN) that contains capital assistance components. The capital assistance policy is not only distributed to farmers individually but also to institutions owned by farmers that already exist in the countryside whose members are farmers. The direct assistance for farmers is distributed in the form of grants by the Agribusiness Microfinance Institution (LKMA). In 2021, the realization of KUR peaked at IDR 25.5 trillion (approximately USD 1.8 billion) on 25 July 2021.

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*Companies that have joint capital divided over shares (shareholder liability is limited to nominal shares owned).*
In response to the COVID-19 pandemic that impacts MSMEs, the government has enacted several policies (April 2020 to December 2021), such as: a) additional interest subsidy of six percent which removes the interest that KUR debtors must pay until December 2020; b) postponement of KUR distribution target to the production sector from 2020 to 2021; c) KUR relaxation through deferment of principal installment and ease of KUR restructuring administration; and, d) extension of additional KUR interest/margin subsidy of three percent from 1 January to 31 December 2021.

The above policies aim to ease the burden of KUR debtors. The government will bear payment of KUR interest of six percent, in addition to relaxation of KUR interest payment until the end of the year. The fund prepared for this policy is IDR 6.1 trillion (approximately USD 429 million). Furthermore, the government temporarily removed some requirements needed to apply for KUR, such as business license, taxpayer ID, and additional collateral documents. Prospective debtors can also access KUR online.

The portion of KUR distributed to the agricultural sector increases every year, totaling IDR 41.89 trillion (approximately USD 2.945 billion) from the beginning of 2021 to 24 July 2021. The amount is dominated by the palm oil plantation subsector of IDR 9.5 trillion (approximately USD 668 million), followed by the rice farming subsector of IDR 7.8 trillion (approximately USD 548 million) and other plants and forestry subsector of IDR 5.5 trillion (approximately USD 387 million). Besides that, the government promotes the acceleration of funding in the agricultural sector by encouraging a synergy of stakeholders. This is done by, among others, encouraging banks or credit distributors to increase KUR distribution to agricultural commodity group by partnering with large companies as off-takers.

Credit needs of smallholder farmers

Credit requirements of smallholder farmers

The MSME Financing Policy Committee reported that the KUR ceiling in 2019 increased to IDR 140 trillion (approximately USD 9.842 billion) from the previous year, which was IDR 123.8 trillion (approximately USD 8.703 billion). Around 60 percent was allocated to agriculture, industry, fisheries, services, and construction. The KUR for the agricultural sector in 2021 increased to IDR 70 trillion (approximately USD 4.921 billion) from IDR 50 trillion (approximately USD 3.515 billion) in 2020. The allocation of KUR for the agricultural sector is aimed to drive farmers to gain access to financing for their farming (Hayati, 2021).

The accomplishment of KUR in 2020 reached IDR 55.9 trillion (approximately USD 3.9 billion), above the targeted loan amount. On the other hand, the NPL\(^5\) rate in the agricultural sector was quite low, at 0.6 percent of the KUR loan value. Meanwhile, KUR absorption rate included the plantation sector (IDR 18 trillion or approximately

\(^5\) The condition of the loan with the condition of the debtor failed to make payments scheduled for a certain period of time.

ANGOC
USD 1.3 billion), food crops (IDR 16.2 trillion or approximately USD 1.1 billion), horticulture (IDR 7 trillion or approximately USD 490 million), livestock (IDR 10.6 trillion or approximately USD 745 million), farming services (IDR 779 billion or approximately USD 55 million), and mixed farming (IDR 3.1 trillion or approximately USD 218 million). These numbers spread across several provinces, including East Java (IDR 12.2 trillion or approximately USD 858 million), Central Java (IDR 8.8 trillion or approximately USD 619 million), South Sulawesi (IDR 4.2 trillion or approximately USD 295 million), West Java (IDR 3.5 trillion or approximately USD 246 million), and Lampung (IDR 3 trillion or approximately USD 211 million).

The absorption rate was supported by banks that issued regulations related to credit grants. Various credit requirements for small farmers include: a) investment, such as rice field irrigation; b) production, such as production and work force inputs; c) consumption, such as family needs before harvest time; and, d) trade and working capital, such as to get the best price for yields.

The requirements of KUR for farmers that are handled by BRI (2021) are generally the same as other credit requirements. First, credit applications must be submitted individually. Second, credit applicants must have a business of six months old at the minimum. Third, credit applicants must not have debts from other banks, except for consumptive credit, such as credit card, housing credit (KPR), and, motor vehicle credit (KKB). Fourth, credit applicants must provide guarantees, such as BPKB or land certificates as decided by the bank. Fifth, credit applicants must submit administrative documents, such as ID card, family card (KK), and, business certificate from the village government (SKU KUR) (Dewi, 2021; Oleh, 2021).

Even though the requirements are quite general, not all credit for the interest mentioned above are immediately accepted and handled by chosen government credit programs. For instance, BRI does not provide loans to small farmers for consumption needs.

"Farmers can receive KUR as long as they use it for business capital. The fund allocation targets entrepreneurs in the agricultural sector, both in groups and individuals," said Agriculture Minister Syahrul Yasin Limpo (Hayati, 2021).

BRI also processes KUR for production and business purposes. For production purposes, the specific requirement is credit applicants must have a business that has been in operation for at least six months. For debtors who apply for MSME KUR, one of the requirements is that their business must be already registered in one of the e-commerce platforms, such as Shopee, Tokopedia, and others, and/or transport providers like Gojek or Grab. For business purposes that include trade and working capital to gain the best interest after harvest, the requirement is for farmers who access KUR Kecil.

Regarding the procedure for unsecured KUR, farmers can apply online through <https://kur.bri.co.id/>. In order to access the KUR BRI registration page, farmers must have an account which needs an email address for verification. In the
application form, farmers need to fill in information regarding their personal and business profile as well as upload documents, such as the application data. If the form has been verified and inserted to the bank’s system, the bank will conduct a validation to determine the next actions.

Meanwhile, BRI cannot grant credit to farmers with multiple loans from other banks. Farmers who apply for KUR at BRI will be rejected if it is confirmed that they receive credit from other banks for the same purpose. For instance, if a farmer has received credit from another bank for production purposes, such as paying workers, then BRI will not approve the farmer’s KUR application for the same purpose. However, there are exceptions to this regulation. If a farmer has consumptive credit from another bank, BRI can still consider accepting their KUR application after validating their data.

The procedure to pay KUR installment is conducted gradually. In the first phase of KUR, installment is paid by farmers two times in a year. After that, in the second phase, farmers can still pay a monthly installment.

“In the first KUR loan, I borrowed IDR 15 million (approximately USD 1,052) and paid in two installments during the year. In the next KUR, I can pay every month. With IDR 10 million in loan (approximately USD 700), the monthly Installment is IDR 600,000 (approximately USD 42) to be paid in 18 months.” (Member of KWT Jatipuro)

On the other hand, in its implementation, small farmers are struggling to meet the credit requirements, especially those related to the installment payment period for small farmers who do not have many sources of income. They often meet the due date for payment before harvest time, causing them to be in arrears.

Agricultural produce cannot be considered as a steady source of income to pay the KUR installment. Furthermore, they may also experience crop failure or a fall in crop prices. During this type of situation, the knowledge created from organizational experience influences the emergence of strategy to develop economic sources. For instance, a member of Gapoktan Ngudi Makmur not only runs a farm, but also breeds cattle and builds other businesses. This is useful for helping them pay their KUR installment.

“I not only manage a farm. I also have other businesses. If my farm fails, I still have other sources of income.” (Gapoktan member)

“I hope there will be a KUR that can be paid according to the harvest time.” (Male beneficiary informant)

One of the female beneficiary informants said that the installment payment per month already suits her capability. She felt that the monthly method was difficult compared to paying per semester. The low interest also made it easier.
KUR is not only used for capital in the agricultural sector. It is also used by debtors to open up a grocery shop to pay for children's education. It is also often used to cover social needs in the community, especially when there is a local celebration or other community activities that need donations.

**Factors limiting the access of smallholder farmers to credit**

Access of small farmers to credit is still limited due to various factors:

- **The hard administrative requirements and procedures**

To access KUR, prospective debtors must meet the administrative requirements according to the procedures of the credit distribution institution, namely the bank. In the process, this requirement still needs to be made easier for small farmers. Several cases were found that the administrative requirements of KUR became one of the challenges for small farmers in accessing KUR, namely:

**First**, KUR administrative requirements need to be eased for small farmers. In referring to the definition of small farmers, Sajogyo (1977) notes small farmers are farmers who have land of less than half a hectare, while the amount of land affects access to capital. In addition, some smallholders have not yet certified their land for collateral.

**Second**, farmers obtain different information regarding the collateral that they have to prepare. Information from the central government say that for loans under IDR 100 million (approximately USD 7,000), collateral is not needed. However, in reality, farmers who apply for loans of IDR 3 million to IDR 4 million (approximately USD 210 to USD 280) are required to give collateral.

"Based on the information from the central government, collaterals are not required for loans less than IDR 100 million (approximately USD 7,000). However, when applying for loan around IDR 3 million or IDR 4 million (approximately USD 210 to USD 280), collaterals are required." (Mitra Tani Jatipuro)

**Third**, credit still requires collateral even though the loan is not more than IDR 10 million (approximately USD 700). This makes things difficult for small farmers who have nothing to be used as collateral. Their production tools are also usually limited and used for farming. Therefore, it is impossible to submit them as collateral. Besides, most farmers in regional areas have no land or vehicle to be used as collateral. This also causes young farmers to not be able to apply for KUR because they also have no insurance.

"In terms of collaterals, at least vehicles or certificates. If the loan is around IDR 1 million to IDR 2 million (approximately USD 70 to USD 140), we can arrange for no collateral. However, most people submit BPKB as collateral. If possible, loans under IDR 10 million (approximately USD 700) should not require submitting collaterals." (in-depth interview, male farmer, 28 years old)

"The loan is difficult to be accessed by young farmers because they have no capital." (in-depth interview, male farmer, 35 years old)
Fourth, installment payment requirements are not in accordance with the harvest time and no information is given regarding sanctions. The policy that requires KUR payment with predetermined payment time from the bank is sometimes difficult to implement because it is not in accordance with the harvest time. There is also no information on sanctions for farmers who are late in paying installment.

“Bank employees will look for you if you are late in paying KUR installments even though it is just one to two days.” (Mitra Tani Jatipuro)

Fifth, the absence of takeover credit in KUR is considered by farmers to be less helpful in overcoming their needs. Farmers are not allowed to transfer credit to other banks with lower interest rates. In addition, this is related to the policy that farmers cannot take two or more types of KUR except consumption credit; sometimes it becomes an obstacle for farmers who want to increase agricultural production as well as their trading business. They are also restricted from being able to borrow from other banks. The BI Checking system as a control of loan turnover to credit providers ultimately causes the phenomenon of farmers borrowing from informal microfinance institutions. There are also those who choose to borrow from relatives or cooperatives, even though the interest rates are quite high.

Overall, the KUR debtors hoped to ease administrative installments of KUR:

“We hope that the credit applications can be made easier, especially the collateral requirements are reduced, and if possible the interest is reduced” (group interview, farmer organization, Jatipuro)

● Uneven KUR socialization

In the implementation of agricultural KUR, the task of conducting socialization is carried out by the local government together with the channeling bank. The local government is tasked with facilitating socialization activities, while the bank is in charge of conveying information on the implementation of KUR techniques. Based on the interviews that have been conducted, there are at least several stages of socialization carried out by local governments, namely, at the provincial level, at the district level, and at the village level.

The implementation of KUR socialization at the provincial level is facilitated by the provincial agriculture office in coordination with the bank and addressed to district level OPDs within the province (interview with the Central Java Provincial Agriculture Office). Meanwhile at the district level, the socialization is addressed to representatives of farmers, while at the village level it is organized by the pemdes (village government), presented by the bank and inviting the surrounding farming community (interview with the Karanganyar Regency Agriculture Office).

In addition, socialization is only done once, namely, at the beginning of the fiscal year and not carried out on a massive scale. Thus, the tiered flow of information, minimal intensity, and limited level of socialization cause differences in the understanding of the information received by farmers.
There is an unequal KUR dissemination to all farmers. During the dissemination of KUR, the participants were limited to farmers who registered for agricultural KUR and already have a BRI account. This could reduce the involvement of small farmers in accessing KUR, especially for farmers’ families who do not have an account with the bank. The dissemination process itself is also merely for administrative matters, causing its implementation to be not optimal.

“Dissemination of KUR is not enough. They usually only give flyers.” (in-depth interview, male farmer, 35 years old)

● The distance to banking facilities

Geographical factors related to the distance between houses and banking facilities cause farmers to prefer other financial institutions. For example, in the findings of our interviews with farmers who do not access KUR, a farmer who is also a village official chooses to access credit from cooperatives and non-formal microfinance institutions because the bank is far from his home. Some farmers also choose to borrow from informal microfinance institutions because they do not have to travel far outside the village to apply for credit at the bank. The officers of the informal microfinance institutions will come to them to provide loans. They chose it even though the interest rate given was high enough to reach three times the KUR interest rate.

● Literacy of farmers

The low level of literacy affects farmers' access to information on the use of KUR. This is partly due to the low level of education of farmers. According to 2018 BPS data, 766,954 farmers (9.65 percent) have never attended school, while 10,358,754 (26.54 percent) have not graduated from elementary school. Elementary school graduates make up 15,023,269 (38.49 percent) of the farmers, junior high school graduates, 6,330,800 (16.22 percent), high school graduates, 332,106 (8.54 percent) and college graduates and those with diplomas and bachelor's degrees, 223,809 (0.57 percent). In other words, farmers in Indonesia are dominated by elementary school graduates. This low level of education affects farmers in accessing information.

Information that is currently spreading through cyberspace has not fully become part of the daily consumption of some farmers. Not every farmer has a device or is technology literate to access digital information. As a result, they prefer alternative institutions such as informal microfinance institutions that carry out door-to-door promotions. In comparison, banks are more likely to promote KUR through digital media.

On the other side, internal factors from the farmers lead to an assumption that there is no relation between KUR and the increase in their farming yields. Even though KUR requirements are considered easy, they think KUR does not affect the number or result of production. The results gained by farmers depend on their management. There are also concerns over crop prices that can drop suddenly and not paying KUR in time.
“The benefit is more like capital because the results of farming depend on the situation. KUR has no influence on production results, depending on the farmers’ management.” (Agricultural Extension Worker [PPL])

The lack of literacy of farmers affects the motivation to use KUR to develop post-harvest programs. A higher level of knowledge of farmers is believed to be able to improve the skills and motivation of farmers in increasing national food productivity. One of the causes of the low motivation of farmers is the function of the PPL which only facilitates the socialization of KUR. There is no assistance related to KUR by PPL after the socialization process for business development. This can lead to confusion and ineffective use of KUR by smallholders. Meanwhile, PPL resources are not sufficient to provide assistance. Farmers do not even fully understand the information related to KUR payments. Even so, PPL has a desire to develop a post-harvest program despite the limited experience and lack of motivation from farmers.

“Even though there will be obstacles in the future if there are no collaterals, mentoring will be useful for farmers. Do not just give and then leave them on their own. Just because the credit is unsecured, it does not mean it can be misused.” (Male beneficiary informant)

“No mentoring, but the loan must still be paid. The bank does not care. Installment must be paid every month. If they are late, then they will be fined.” (Member of Gapoktan Ngudi Makmur)

Lack of coordination between stakeholders

The relationship between stakeholders is also still transactional. Between the central government and the regional government it is limited to administrative matters where the regions are instructed to conduct socialization related to KUR. However, the regions are not given authority in terms of budgets to carry out direct and comprehensive socialization to the target community.

Meanwhile, the relationship between the central government and lending banks is also limited to budget transfers that are carried out directly without intermediaries from the regional government. As a result, there is no strong and good communication and coordination between local governments and banks for the development of the KUR program. Therefore, local governments cannot monitor and evaluate banks because there is no cooperation that is specifically and periodically aimed at developing the KUR program.

Then, there is no room for dialogue that is built between stakeholders to determine policies together. This can be seen from the communication between banks and the central government that only goes one way (top-down). Banks have no room to compromise their needs with the central government. The central government determines the policy that KUR for farmers is less than IDR 25 million (approximately USD 1,760) free of collateral. However, banks as credit providers have not dared to implement this policy in practice. Bank regulations that continue to run without warning from the central government indicate that there is no monitoring or evaluation carried out by the central government for banks.
The coordination between banks and debtors is also limited to the need for a cycle of capital turnover. Banks provide credit without having a plan to provide assistance to credit recipients. This includes not conducting monitoring and evaluation so that in the field there are many debtors who use KUR that are not in accordance with their objectives. For banks, the most important thing is that the debtor can repay the loan within a predetermined time. Meanwhile, for debtors, KUR can be used to dig up debt holes.

General agricultural KUR designs misdirected

Since its inception, the KUR program was designed to provide access to capital for farmers to increase agricultural production. This is because the majority of farmers in Indonesia are small farmers and poor in rural areas. However, KUR requirements that are general in nature and do not specifically target related agricultural issues have caused the implementation of KUR to be neglected on strategic issues related to agriculture. The central government as a stakeholder with the highest authority as a policy maker, has not yet targeted a sustainable agricultural system to support the reduction of global warming as a form of commitment to global interests as stated in the SDGs objectives, for example, regulations governing credit granting for organic/natural farming businesses. Meanwhile, some farmers who are part of the agricultural credit stakeholders have implemented organic/natural agriculture as their production activities. Ideally, a policy can guarantee the sustainability of organic/natural agriculture in the credit program because the average farmer owns less than one hectare of land.

Women have not been the target of KUR

BPS data from the 2018 Inter-Census Agricultural Survey (SUTAS) state that eight million farmers in Indonesia are women. However, the ease of granting agricultural credit to women has not yet become the focus of policies related to lending. Although in the administration of KUR, married male farmers must obtain the approval of their wives, without specific targets for female farmers, it will not encourage the ability of female farmers to develop their agricultural businesses. One of the KWT members in Jatipuro said that her husband accessed KUR Agriculture and they used it for her agricultural business and her husband's non-agricultural business.

Analysis of the role of KUR for small farmers in Indonesia

Braverman and Guasch (1986) show that credit policies that are set uniformly for the same category of debtors but have different characters are quite risky. For example, the establishment of a credit scheme that was applied to African and Latin American farmers in the 1980s. The governments in the two countries use the point of view of “common interests” to prospective debtor farmers, not from an “equality” point of view by looking at the needs of farmers at each level.

As a result, landlords with large land assets can apply for larger loans than farmers with limited land. When the landlord uses loans to increase his production and
succeeds, he experiences an increase in income. Therefore, he can then repay the loan without any problems and can apply for another loan easily. This cycle ultimately causes the landlord's profits to multiply. Meanwhile, farmers who only have a small amount of land do not have the same opportunity to develop their agricultural businesses.

“Policies that allocate credit to farmers indiscriminately provide larger loans to larger landholders when all credit demands are fulfilled. This is because larger landholders require larger loans even if there are decreasing returns to credit per hectare and per farm size. This is also true if excess demand gives rise to rationing.” (Braverman and Guasch, 1986)

This phenomenon indicates that accessibility to credit is determined by the ownership of resources that can be used as collateral.

The credit distribution system discovered by Braveman and Guasch (1986) also occurs in Indonesia. Stakeholders who act as credit providers and distributors have not yet taken the initiative to make policies to provide different treatment to farmers with varying needs. For example, there is no accommodation for farmers who want to develop agricultural production as well as marketing efforts. They cannot make loans on two types of KUR for two types of purposes.

Even so, there is satisfaction from farmers who access KUR because of the low interest rate system. Compared to other credit systems, KUR is a credit system with the lowest interest rate, at six percent. A smooth credit payment process also correlates well with the ease of service facilities they get. Farmers are satisfied when in the first stage of lending they are able to return the credit according to the maturity, they will get convenience in the next stage of the loan. Such a service delivery system becomes the added value of KUR that is considered by farmers to be maintained.

“...ease in the credit application process and low KUR interest...” (in-depth interview, woman, 34 years old)

“This KUR program is very helpful for farmers, especially in providing capital at the beginning of a farming business (the cost of land cultivation and planting)” (in-depth interview, man, 60 years old)

Special requirements of smallholders in COVID-19 pandemic

In 2020, when COVID-19 turned into a pandemic, Indonesia was quite affected economically. Therefore, as one of the KUR distributors, BRI made some adjustments by implementing three KUR schemes, namely KURI Mikro BRI, KUR Kecil BRI, and KUR TKI BRI, with different types of credit.

KUR Mikro and KUR Kecil offer the same credit, which is working capital and/or investment, while KUR TKI offers working capital to support the departure of
prospective migrant workers. KUR TKI is not for farmers because its main requirement is that the applicant must be an individual who has applied as a migrant worker who will depart for their assigned country.

KUR Mikro and KUR Kecil have larger potential to be processed by BRI. The interest rate of both types of KUR is the same, which is six percent. For KUR Mikro, the maximum credit is IDR 50 million (approximately USD 3,500) with a maximum term of five years. For KUR Kecil, the maximum credit is around IDR 50 million to IDR 500 million (approximately USD 3,500 to USD 35,000) with a maximum term of five years.

There are four requirements for KUR Mikro. First, the applicant owns a productive business. Second, the business has been active for at least six months. Third, the applicant is allowed to receive credit or KUR from the same distributor, house credit, leasing, and credit card as long as their payment is smooth. Fourth, the applicant must submit documents, such as ID card, family card, and, business license.

KUR Kecil also has four requirements. First, the applicant owns a productive business. Second, the business has been active for at least six months. Third, the applicant is currently not receiving credit from another bank, except consumptive credit. Fourth, the applicant must have a business license.

Requirements regarding the policy on installment payment deadline that has been a problem since before the pandemic have burdened the farmers whose lives have been directly affected. For instance, a male beneficiary who built a chicken coop was not able to sell as many chickens as usual due to the pandemic. As a result, he faced difficulties in paying the installment.

The informant said deferral of payment for a year could definitely help him alleviate his burden. Hopefully, the bank will conduct a survey first on debtors whose businesses went under due to the pandemic. For instance, the bank can build good communication by not demanding payment or giving payment deferral and not just outright blacklisting the debtors.

Information about payment deferral was also not disseminated evenly. Members of Gapoktan Ngudi Makmur did not receive the information. On the other hand, there were no policies from the bank for the debt reduction scheme for small farmers, who still need to pay the installment with the same amount every month.

“During the pandemic, there is no loan term and reduction in interest rate.” (Member of Gapoktan Ngudi Makmur)

“During the pandemic, there was no debt reduction scheme. The same amount must be paid every month.” (Member of Gapoktan Ngudi Makmur)

A female beneficiary informant made a similar statement. It was more difficult to pay the installment due to the pandemic. The informant felt relieved because of the payment deferral. She received the information from mantri. Hopefully, the interest
that must be paid can be reduced because the pandemic has affected all aspects of the informant’s life.

Conclusion and recommendations

Conclusion

The relevance between the government’s goal with the KUR for the agriculture sector is yet to be seen in the implementation at the regional level. Small farmers have not felt the benefits of the program holistically. As a government-appointed credit distributor, the bank has not been able to facilitate the funding for farmers’ needs, which are the basis of loan requirements. The bank has merely acted as capital provider. As a result, many debtors have misused KUR funds; they used them for non-agricultural needs.

The granting of credit also does not imply support for sustainable development as the KUR system actually supports an agricultural system that is environmentally unfriendly. On the other hand, the bank’s technology-based policy has not considered the farmers’ access to technology at the regional level. Women have also not become a priority target for the credit program.

Recommendations

- Enact a law that specifically regulates the procedure to apply for agricultural KUR as well as the obligations that must be fulfilled by every stakeholder (regional governments, banks, and debtors).
- Synchronize the regulations issued by the central government, regional governments, and credit distributors related to collateral free policy of the agricultural KUR for small farmers.
- Involve farmers who are debtors in making decisions regarding the installment payment time as a solution for uncertain income from agricultural produce.
- Allocate funds for dissemination activities, mentoring, and monitoring and evaluation of agricultural KUR funds managed by regional governments.
- Grant regional governments the authority to conduct monitoring and evaluation on banks that distribute the credit regarding the absorption of KUR funds by farmers.
- Establish cooperation between regional governments and banks in conducting dissemination activities, mentoring, and monitoring and evaluation on the use of KUR funds.
- Accommodate the funds and the mentoring assistance in term of financial literacy, to expand and scale up the production towards post-harvest.
- Increase the engagement of women in formulating policies or provide special benefits for women who apply for KUR.
- Provide a bonus in the form of extended credit repayment time for debtors who practice natural/organic farming.
- Give deferral of installment payment through due repayment relaxation when disasters such as pandemics occur.
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The relevance of the government’s objectives to the existence of People’s Business Credit or Kredit Usaha Rakyat (KUR) in the agriculture sector has not been seen in the implementation in the regions. Small farmers have not experienced the benefits of the program holistically. Improving the policy on KUR will help small farmers, especially women farmers, to access and use KUR for their agricultural needs, hence, this study.

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