

LKMA Evaluation Formed from PUAP Program in Overcoming Farming Financing in Rural Areas (Case study: Magelang Regency)

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Abstract. Rural Agribusiness Development (PUAP) is a program to provide capital for smallholder in the agricultural sector. The final goal of this program is to format Agribusiness Micro Credit Institutions (LKMA) in rural. In the implementation 6,887 LKMAs have been formed, including in Magelang Regency. The purpose of this paper is to evaluate the LKMA and its benefit for farmers' capital fulfillment. The survey was conducted in July 2019 using the FGD method with administrators and interviews with the farmer using a questionnaire. The evaluation focused on the institutional, business, and capital development aspects. The data analyzed through the ranking method to determine the LKMA rank. Of the 9 LKMA, the best LKMA is Ngudi Luhur LKMA, with criteria (i) the institutional aspect is already incorporated, has an office, employees with a fixed monthly salary; (ii) business aspects: saving and loan business carried out based on SOP of financial institutions and (iii) of capital development have reached 3.3 billion. However, loans only cover less than 30% of farmers' needs due to the limited availability of LKMA capital. Therefore, it is recommended to assist capital loan assistance to LKMA, which will then be transmitted to farmers.

1 Introduction

The concept of financial inclusion emerged in the 2000s as a more comprehensive way to justify the need to establish financial services [1]. It indicates that everyone should have access to financial services at reasonable prices (interest) in a suitable manner with respect and dignity. In the agricultural context [2] proposed that Microfinance has been considered as a pathway for smallholder farming. [3] believed that extension of credit services will have great impacts on agriculture production of society farmers and rural incomes. However, the effectiveness of microfinance in supporting the agricultural industry still debatable. For instance, [4] reported that microfinance is regarded as a powerful instrument in Vietnam's economy. Nevertheless, the study of [5] found no significant impact of microfinance on agriculture industry performance in Pakistan. The condition of social, economic, and natural resources contributes to the level of microfinance.

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Microfinance institutions provide essential financial services (such as loans, savings, and insurance) to low-income individuals, for whom it is not feasible (possible) to access financial services [6]. For the agricultural sector, financial support is urgent because many farmers tend to a shortage of funds. Agricultural microfinance is supposed to play a significant role in facilitating the improvement of the agricultural sector. The study [7] found that microfinance is positively related to agricultural production and significantly impacts yield levels. Especially for Indonesia, the findings study of [8] stated that microfinance has the opportunity to contribute to the existing schemes of climate change adaptation for agriculture.

However, banking prudence in channeling credit to the agricultural sector, causing farmers to have difficulty in borrowing venture capital. This caution is because farmers do not have enough collateral and the production of farming almost all is not durable [9]. Therefore farmers are more likely to borrow capital from informal financing institutions that are burdensome and ultimately do not provide benefits [10]. As a matter of fact, the capital factor is one of the problems in increasing productivity [11].

In overcoming the problem of farming financing, the government has issued several programs, and one of them is the Rural Agribusiness Development which is called PUAP Program. This program is in the form of venture capital assistance for farmers, landowners, tenants, and farm laborers [12]. The support provided does not involve formal financial institutions, but it directly gives to the Farmers Group Association (FGA) with value of 100 million IDR/FGA. Every FGA is expected to create an Agribusiness Microfinance Institution which is called LKMA whose task is to manage aid funds independently.

PUAP program aims to: (i) reduce poverty and unemployment by growing and developing agribusiness business activities in rural areas according to regional potential; (ii) increasing the ability and knowledge of agribusiness entrepreneurs, FGA management, Extension and Supervision of Farmer Partners; (iii) empowering farmer institutions and the rural economy for the development of agribusiness business activities and (iv) enhancing the functioning of farmer economic institutions into networks or partners of financial institutions in the context of access to capital [13]

The PUAP program was implemented from 2008 to 2015. The number of villages in Indonesia receiving the program is 52,186 villages. Each village is represented by a FGA and it is expected that each FGA will later form LKMA. But in its implementation LKMA formed only 6,887 units. The low formation of *LKMA* is due to: (i) it was established at the initiative of the government, the membership and ownership status of *LKMA* is unclear, (ii) uncertainty also in the distribution of rights and obligations for each member and management, (iii) it is difficult to achieve economic and difficult business scale maintain its sustainability, (iv) expect the savings of members and non-members are also difficult because saving funds in *LKMA* have a great risk [14].

All matters above could have happened because establishing an institution is quite sophisticated. It takes time to strengthen the existence of poor farmers groups and other related institutions [15]. Gapoktan failed to develop PUAP funds because: (i) Human resources capacity was not able to manage the revolving fund, (ii) there were still farmers who were late even did not return loan funds, and (iii) use of funds for non-productive activities [16-18]. On the other hand, the positive impacts of the PUAP program at the farmer level are: (i) increased insights about savings and loans, (ii) increased interaction between farmers, (iii) obtaining loans with security procedures and conditions, (iv) not being tied to intermediaries and (v) farmers' income and employment opportunities will increase [19-21].

Regarding the benefits and problems in implementing the *PUAP* program, this paper aims to evaluate how the implementation of running the *LKMA*, especially in institutional,

business implementation, business development aspects, and how much the benefits for farmers in fulfillment of capital needs effort.

2 Methodology

The survey was conducted in July 2019 in Magelang District. The research location was defined purposively based on the criteria of the districts that previously received PUAP program assistance. As the unit analysis in this survey is GFA that has formed LKMA. The respondent is the administrator of LKMA that has obtained a business license from the Financial Services Authority (FSA/OJK). From these criteria, 9 AMFI finally was chosen as shown in table 1 below.

Table 1. LKMA in Magelang District Has Already Got a Business License from OJK

No	LKMA	Address	
		Village	Subdistrict
1	LKMA Maju Makmur	Borobudur	Borobudur
2	LKMA Tani Makmur	Kalibening	Dukun
3	LKMA Sukses Makmur	Sumber	Dukun
4	LKMA Tani Sukses Mandiri	Krinjing	Dukun
5	LKMA Randu Makmur	Gondosuli	Muntilan
6	LKMA Ngudi Luhur	Seloboro	Salam
7	LKMA Merapi Sejahtera	Krasak	Salaman
8	LKMA Tani Makmur Merapi	Kaliurang	Srumbung
9	LKMA Arta Makmur	Tegal Randu	Srumbung

Source: Directorate of Agricultural Financing. 2018 [22]

The data in this study consisted of primary data and secondary data. Primary data was collected through (i) direct interviews with 27 borrower (farmers) using a questionnaire focusing on farming; each LKMA was represented by three farmers representing the most borrowed subsectors and (ii) FGD with LKMA management in terms of the experience of running a business. Meanwhile, secondary data was obtained from LKMA relating to institutional, business, and loan requirements as well as financial statements.

The collected data then was analyzed using: (i) descriptive analysis to look at the performance of LKMA implementation; (ii) LKMA evaluation using ranking methods; and (iii) the magnitude of the benefits of venture capital loans for farmers is obtained by comparing the number of loans with the number of business costs. The data collected is then analyzed using: (i) descriptive analysis to look at the performance of LKMA implementation; (ii) LKMA evaluation using ranking methods; and (iii) the magnitude of the benefits of venture capital loans for farmers is obtained by comparing the number of loans with the number of business costs.

3 Results and Discussion

3.1 The Role of Local Government

Although the national PUAP program activities have ended, but in its development is still a concern of local governments. This was represented by the issuance of Magelang District Decree No. 180,182/62/KEP/01.03/2019 concerning the Team Advisor, Monitoring and Evaluation of Microfinance Financial Institutions of Magelang District, 2019. This Regent's Decree is a spirit to encourage the Micro Finance Institution in the economic and industrial

development, especially micro industries and home industries so as to create a good business climate and expand employment. The tasks of the team formed include:

1. Conduct an inventory of microfinance institutions in Magelang District
2. Coordinating and implementing guidance, guidance and assistance for microfinance institutions in the context of preparation to become a legal microfinance institution
3. Make efforts towards strengthening institutions and developing human resources management
4. Carry out monitoring and evaluation activities on the development of microfinance institutions.

One of the tasks of the district development and monitoring team is to assist LKMA management in legality management. This team in 2019 succeeded in helping the legal status of 9 LKMA who had obtained FSA/OJK licenses to become cooperatives. This status change causes name changes and different name changes, some use the name: LKMA Cooperative, Gapoktan LKMA Cooperative and others use Farmer Cooperatives (Table 2).

Table 2. Changes in LKMA Names

No	2018	2019
1	LKMA Maju Makmur	Koperasi LKMA Maju Makmur Kalipucang
2	LKMA Tani Makmur	Koperasi Tani Makmur
3	LKMA Sukses Makmur	Koperasi LKMA Gapoktan Sukses Makmur
4	LKMA Tani Sukses Mandiri	Koperasi LKMA Tani Sukses Mandiri
5	LKMA Randu Makmur	Koperasi LKMA Randu Makmur
6	LKMA Ngudi Luhur	Koperasi LKMA Ngudi Luhur
7	LKMA Merapi Sejahtera	Koperasi LKMA Tani Merapi Sejahtera
8	LKMA Tani Makmur Merapi	Koperasi Tani Makmur Merapi Kerinjing
9	LKMA Arta Makmur	Koperasi LKMA Arta Makmur Sejahtera

3.2 Evaluation of LKMA Activities

3.2.1 Institutional Aspects

In this study, as the object of research is LKMA, which in 2018 had obtained a business license from OJK. When the survey conducted in 2019, the LKMA had become a cooperative. Therefore, LKMA has been authorized by two agencies, i.e., the Ministry of Cooperatives and the Ministry of Finance. One example of such legality is the LKMA Ngudi Luhur Cooperative, which was inaugurated by the OJK based on Kep-05 / NB.123 / 2015 and Magelang District Decree No. 180,182 / 501 / KEP / 26/2015. The cooperative has a vision: "the realization of an independent and prosperous Kaliurang Village community." The mission was realized by "providing savings and loan services based on a sincere spirit to work together to help each other in overcoming the problem of limited capital for the farming community to improve the family economy".

From LKMA surveyed, only LKMA Ngudi Luhur runs activities in offices or special rooms. Many other LKMA work in one room of the house owned by the management or members with hitchhiking status. Such status is not high costs and not fixed payment every year, because it is adjusted to the Cooperative income. But, it does not occur in the LKMA Ngudi Luhur Cooperative, which allocates a budget for office rent IDR 3,000,000/ year. In conducting its activities, all LKMA' officer have used computers. This is reasonable, because previously the OJK have obliged each LKMA to make financial reports with computers and reported periodically (every year) by online. Office equipment other than computers and printers is only owned by LKMA Ngudi Luhur. The equipment such as

filing cabinets, desks and chairs are available in every room. At LKMA Ngudi Luhur, there is a special room for customers to do transactions.

All LKMA already have an organizational structure and management. Recruitment of management can initiate from several alternatives, namely (i) all from outside FGA, (ii) all management from FGA, or (iii) a combination of FGA and outside FGA. Administrators will get incentives based on LKMA income. The stimuli were obtained in two ways, namely: (i) at the time of the equity (*SHU*) distribution at the end of each year, and all LKMA implemented it; (ii) incentives given every month applied at 8 LKMA. Only LKMA Tani Makmur does not provide monthly incentives to the management. LKMA Ngudi Luhur provides the highest incentive as much as IDR. 1,000,000 for managers and IDR. 900,000 for staff. To see the institutional aspects and the process of calculating the ranking, see Table 3.

Table 3. Institutional Aspects and Ranking Calculation

No	LKMA	Legal entity		Office			Office equipment		Caretaker		Incentive		Score
		Cooperative	OJK	Rent	Belongs to	Hitc hhik e	Com puter	Furn iture	FGA	Non-FGA	de vi dent	Salary (month)	
1	Maju Makmur Kalipucang	1	1	0	0	1	1	0	0	1	1	1	7
2	Tani Makmur	1	1	0	0	1	1	0	0	1	1	0	6
3	Sukses Makmur	1	1	0	0	1	1	0	0	1	1	1	7
4	Tani Sukses Mandiri	1	1	0	0	1	1	0	0	1	1	1	7
5	Randu Makmur	1	1	0	0	1	1	0	1	1	1	1	8
6	Ngudi Luhur	1	1	1	0	0	1	1	1	1	1	1	9
7	Tani Merapi Sejahtera	1	1	0	0	1	1	0	1	1	1	1	8
8	Tani Makmur Merapi Kerinjing	1	1	0	0	1	1	1	1	0	1	1	8
9	Arta Makmur Sejahtera	1	1	0	0	1	1	0	0	1	1	1	7

Note: 0 = no 1 = yes

3.2.2 Business Implementation Aspects

After becoming a cooperative, each LKMA or cooperative member is obliged to pay the principal savings that apply once and the mandatory savings paid every month. The highest savings is IDR 50,000 and the lowest is IDR 20,000. Whereas the highest monthly compulsory contributions are IDR 10,000 and the lowest is IDR 2,000.

All LKMA have savings and loan activity. Members who save will get 0.01% interest annually. LKMA which does not require members to save money is only LKMA Tani Makmur. Borrowing members will be charged interest by determining the amount as follows: (i) a fixed interest of 1 to 1.6% per month without differentiating the type of

business and (ii) interest between 1 to 3% per month based on a predetermined loan scheme. LKMA which uses a loan scheme is only LKMA Ngudi Luhur.

Besides interest, LKMA requires borrowers to pay administrative costs when borrowing. Administrative costs differ between LKMA; for example, LKMA Sukses Makmur applies administrative costs each time it borrows IDR 15,000. While LKMA Maju Makmur collected an administration fee of IDR 10,000. Another LKMA applies administration fees as a percentage, which is 1% of the total loan. Additional fees will be charged for borrowers who are late in paying monthly installments. All LKMA applies late fees for paying monthly bills. Late fees for paying monthly bills are set in nominal terms and based on a percentage. At LKMA Arta Makmur Sejahtera for those who are late paying a penalty of IDR 1,000 per day. While in LKMA Ngudi Luhur, the cost of late paying bills is 1.5% of monthly payment obligations.

Members who borrow business capital from LKMA Tani Makmur do not need to submit a loan letter because the borrower's data and information already exist in LKMA. Collateral is also not required for members who borrow at LKMA Maju Makmur, LKMA Tani Makmur, LKMA Sukses Makmur, and LKMA Makmur Merapi Kerinjing. Collateral is not required for borrowers because: (i) the amount of the loan is not large, (ii) is stayed in the same village, and (iii) there is no special place for storing collateral. To see aspects of business implementation and the process of calculating its ranking, see Table 4.

Table 4. Aspects of Business Implementation and Ranking Calculation

No	LKMA Name	Business		Rate Loan per month (%)	Other Costs (%)			Borrowing Requirements				Amount
		Savings	Loans		Provision	ADM	Fine	Letter of Submission		Collateral		
								Yes	No	Yes	No	
1	Maju Makmur Kalipucang	1	1	1,5	0	1	1	1	0	0	0	5
2	Tani Makmur	0	1	1	0	1	0	0	0	0	0	3
3	Sukses Makmur	1	1	1	0	1	0	1	0	0	0	4
4	Tani Sukses Mandiri	1	1	1	0	1	1	1	0	1	0	6
5	Randu Makmur	1	1	1	0	1	1	1	0	1	0	6
6	Ngudi Luhur	1	1	1 - 3	0	1	1	1	0	1	0	6
7	Tani Merapi Sejahtera	1	1	1	0	1	1	1	0	1	0	6
8	Tani Makmur Merapi Kerinjing	1	1	1,5	0	1	0	1	0	0	0	4
9	Arta Makmur Sejahtera	1	1	1,6	0	1	1	1	0	1	0	6

3.2.3 Business Development Aspects

The timing of capital listing is not the same in every LKMA, some start in 2013, 2014, 2015, 2016 and even some only record venture capital in 2016 alone, as happened in LKMA Sukses Makmur (Table 5). How many people who borrow each year is recorded very well only in LKMA Ngudi Luhur, LKMA Tani Merapi sejahtera, LKMA Maju Makmur Kalipucang and LKMA Tani Makmur.

The largest development of venture capital and the largest number of borrowers occurred in LKMA Ngudi Luhur. In 2013 the venture capital in LKMA Ngudi Luhur amounted to 967 million and increased in 2018 to 3.4 billion. Over a period of 6 years the average business capital in LKMA Ngudi Luhur increased by 29.86 percent per year. While the number of borrowers in LKMA Ngudi Luhur from 2013 to 2018 increased on average each year by 18.76%. The increase in business capital for the next order is LKMA Randu Makmur and LKMA Tani Merapi Sejahtera. The increase for each LKMA averaged 13.47% and 8.92%.

Table 5. Aspects of Business Development (IDR 000)

Point	Description	Years						Average annual growth
		2013	2014	2015	2016	2017	2018	
9	LKMA Ngudi Luhur							
	Capital (000 IDR)	966,992	1,357,472	2,246,023	2,535,739	2,935,479	3,370,466	29.86
	Borrowers (People)	657	885	1098	1,283	1,402	1,527	18.76
8	LKMA Randu Mkmur							
	Capital (000 IDR)	391,377	451,007	487,329	543,572	710,347	723,466	13.47
	Borrowers (People)	-	-	-	245	222	172	-15.96
7	LKMA Tani Merapi Sejahtera							
	Capital (000 IDR)	157,461	139,342	185,583	172,550	222,012	224,856	8.92
	Borrowers (People)	176	100	152	105	102	74	-10.48
6	LKMA Tani Makmur							
	Capital (000 IDR)	-	-	123,950	170,188	171,204	146,968	7.91
	Borrowers (People)	-	-	70	90	102	109	16.26
5	LKMA Makmur Merapi Kerinjing							
	Capital (000 IDR)	-	118,385	139,078	154,041	144,523	153,038	6.99
	Borrowers (People)	-	-	-	-	-	-	-
4	LKMA Arta Makmur Sejahtera							
	Capital (000 IDR)	-	-	126,423	122,856	129,137	143,208	4.39
	Borrowers (People)	-	-	-	-	-	-	-
3	LKMA Tani Sukses Mandiri							
	Capital (000 IDR)	-	-	145,619	154,429	154,995	161,686	3.58
	Borrowers (People)	-	-	-	-	-	-	-
2	LKMA Maju Makmur Kalipucang							
	Capital (000 IDR)	-	-	103,621	111,979	134,013	136,859	2.69
	Borrowers (People)	-	-	20	12	67	60	-13.3
1	LKMA Sukses Makmur							
	Capital (000 IDR)	-	-	-	122,698	-	-	-
	Borrowers (People)	-	-	-	-	-	-	-

3.2.4 The Best Rank of LKMA

By using several assessment criteria, LKMA Ngudi Luhur was selected as the best ranking LKMA in Magelang District (Table 6). Some assessment indicators are as follows:

1. Institutional aspects, LKMA has worked professionally. All managers work in offices that are equipped with adequate office equipment and have permanent employees paid every month
2. Aspects of implementation, already modeled the implementation of loans carried out by formal financial institutions, including the necessity of each borrower to make a loan application letter and have collateral, interest is distinguished based on the time of the loan (tenor), subject to administrative costs and penalties for late monthly installment payments.
3. Business development aspects, with an average increase in the business capital of IDR 40 million per month.

Table 6. LKMA Best Ranking

LKMA Name	Aspect				Business Development	
	Institutional	Implementation	Business	Amount	LKMA Name	Rank
Ngudi Luhur	9	6	9	24	Ngudi Luhur	1
Randu Makmur	8	6	8	22	Randu Makmur	2
Tani Merapi Sejahtera	8	6	7	21	Tani Merapi Sejahtera	3
Arta Makmur Sejahtera	7	6	4	17	Arta Makmur Sejahtera	4
Tani Sukses Mandiri	7	6	3	16	Tani Makmur Merapi Kerinjing	4
Maju Makmur Kalipucang	7	5	2	14	Tani Sukses Mandiri	5
Tani Makmur Merapi Kerinjing	8	4	5	17	Tani Makmur	6
Sukses Makmur	7	4	1	12	Maju Makmur Kalipucang	7
Tani Makmur	6	3	6	15	Sukses Makmur	8

Some excellence of LKMA Ngudi Luhur management compared to other LKMA are as follow:

1. Savings Products

LKMA Ngudi Luhur has made several choices in saving, including: (i) Germungtus (*Mung Limang Atus* Movement), an education savings with competitive services that can only be taken at the time of graduation of the child; (ii) Si Mada LKM (Emergency Prepared Deposits), share savings that can only be taken in the event of a disaster / disaster; (iii) Si Hara LKM (Hari Raya) Savings, semi-stock deposits that can only be taken 2 months before Idul Fitri and (iv) Si Bulan LKM (Monthly Savings), deposits that can be taken at any time.

2. Loan Products

LKMA Ngudi Luhur has made several loan schemes, namely:

a. Monthly loans, with conditions:

- Minimum repayment period of 6 months
- Loan interest is 1.5% flat
- provide collateral loan
- Tolerance of payment of principal and interest installments for 1 month
- Willing to be surveyed and analyzed by loan officers
- Loans can be disbursed after submitting the building and have been verified
- Fill in the SPP (Loan Request Letter) with attached husband and wife FC ID, FC family member and collateral guaranteed

b. Weekly loans, terms:

- Minimum repayment period of 6 months
- 2.5% flat loan interest
- provide collateral loan
- Tolerance of payment of principal and interest installments for 1 week
- Willing to be surveyed and analyzed by loan officers
- Loans can be disbursed after submitting the building and have been verified
- Fill in the SPP (Loan Request Letter) with attached husband and wife FC ID, FC family member and collateral guaranteed

c. Maturity date Loans, terms:

- Minimum repayment period of 6 months
- 3% flat loan interest
- Collateral loan
- Tolerance of payment of principal and interest installments for 1 month

- Willing to be surveyed and analyzed by loan officers
- Loans can be disbursed after submitting the building and have been verified
- Fill in the SPP (Loan Request Letter) with attached husband and wife FC ID, FC family member and collateral guaranteed

d. Partnership Loans, terms:

- Minimum repayment period of 6 months
- Loan interest at 0.1% flat
- Guarantees for guarantees are all deposits, BPKB, Land Certificate, and SK
- Tolerance of payment of principal and interest installments for 1 month
- Willing to be surveyed and analyzed by loan officers
- Loans can be disbursed after submitting the building and have been verified
- Fill in the SPP (Loan Request Letter) with attached husband and wife FC ID, FC KK and collateral guaranteed

3. Already Have Standard Operating Procedure (SOP)

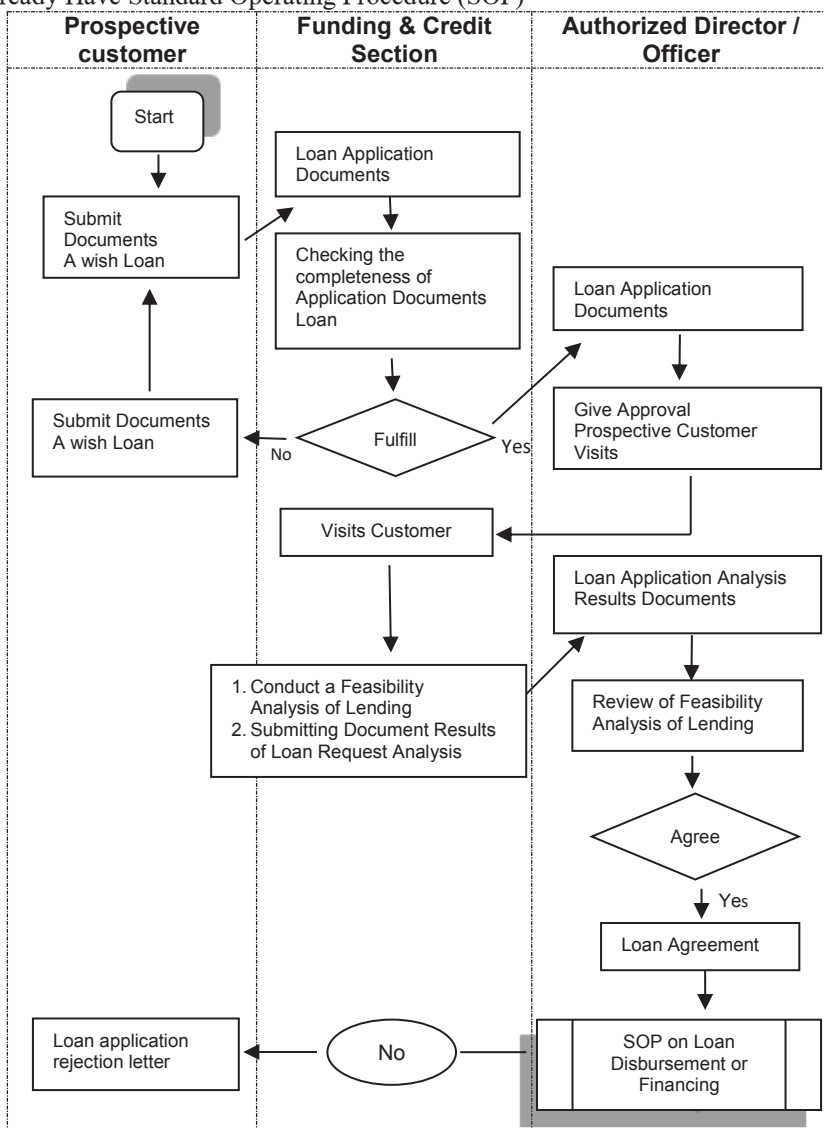


Fig. 1. SOP Loan Application

These include SOPs for loan applications, loan disbursements, cash payment installments, loan repayments, saving deposits, savings deposits, withdrawals of savings, collection to borrowers and settlement of bad debts. One example is the form of a loan application SOP as shown in figure 1.

4. In carrying out the effort to save lkma loan Ngudi Luhur has implemented several SOPs including: (i) SOP for receiving deposits / savings, (ii) SOP of financing (types of products), SOP for member acceptance (principal and mandatory savings), SOP of financing problems and SOP collectability calculation. In addition to having several SOP, LKMA Ngudi Luhur also has several other administrations and can be seen in Table 7.

Table 7. Completeness of Administration Owned by LKMA

No	Maju Makmur Kalipucang	Tani Makmur	Sukses Makmur	Tani Sukses Mandiri	Randu Makmur	Ngudi Luhur	Tani Merapi Sejahtera	Tani Makmur Merapi Kerinjing	Arta Makmur Sejahtera
1	V	V	V	V	V	V	V	V	V
2	V	V	V	V	-	V	V	V	V
3	-	-	-	-	V	-	-	-	-
4	V	V	V	V	V	V	V	V	V
5	V	V	V	V	V	V	V	V	V
6	V	-	V	V	V	V	V	V	V
7	V	V	V	V	V	V	V	V	V
8	V	-	V	V	V	V	V	V	V
9	-	-	V	V	V	V	V	V	-
10	-	V	-	V	-	V	V	-	V
11	-	-	V	-	-	V	-	-	-
12	-	-	V	V	-	V	-	-	-
13	-	-	-	-	-	V	-	-	-
14	-	-	-	-	-	V	-	-	-
15	-	-	-	-	-	V	-	-	-
16	V	-	V	V	V	V	V	V	V
17	-	V	-	-	-	-	-	-	-
18	-	-	-	V	V	V	-	V	V
19	V	V	V	V	V	V	V	V	V

Administrative type

1 = deed of company establishment and amendments; 2 = letter of endorsement from the ministry (legal / cooperative); 3 = NPWP institution; 4 = ID card and NPWP management, supervisors and managers; 5 = Savings and Loan Business License; 6 = RAT report for the past 3 years; 7 = Internal financial statements of the cooperative for the current year; 8 = funding agreement and binder of collateral to members; 9 = contract / agreement with the debtor; 10 = CV of management, supervisors and board of directors / managers; 11 = SOP for receiving deposits / savings; 12 = SOP of financing (types of products); 13 = SOP for member acceptance (principal and mandatory savings); 14 = SOP of financing problems; 15 = SOP collectability calculation; 16 = Organizational Structure (center and branch); 17 = Summary of financial performance; 18 = Application for Financing; 19 = By laws (ART)

3.3 Utilization and Capability

Farmer respondents make use of capital borrowed from LKMA for several business groups: (i) maintaining fruit plants, especially snakeskin fruit and longan plants, (ii) growing vegetables, especially chili and leeks, (iii) raising poultry and (iv) additional businesses for grocery stores, manufacturing souvenirs for sale at the Borobudur temple and as a capital for the small food trading business.

All farmers respondents feel that the loan interest of 1 to 1.5% per month is not burdensome. The loan period (tenor) is given for ten months. However, farmers felt that amount of loan given is small and still below the required business costs. The average loan amount is only 26.89% of the total business costs needed (Table 8).

From the net farm income, actually, it is still possible for farmers to increase more loans. Fruit farmers who cultivate less than 1 ha and vegetable farmers of less than 0.5 hectares can get a net income of an average of IDR 30 million. If the borrowing requirement is 30% of the net income, the farmer deserves a loan of IDR. 9 million.

Table 8. Average Use of Loans and Capability (000)

Sector	Borrower (person)	Loan (IDR)	Repayment (IDR)	Farm Cost (IDR)	Loans / business costs (%)	Gross revenue (IDR)	Net revenue (IDR)	30% Net Receipt
<i>Fruits:</i>								
Snakeskin fruit	6	5,000	5,750	16.348	30.58	47.126	30.778	9.233
Longan	3	4,500	5,175	17.465	25.77	46.968	29.503	8.850
<i>Vegetables</i>								
Chili	3	4,000	4,600	19.730	20.27	53.703	33.973	10.191
Spring Onion	2	3,000	3,450	16.274	18.43	39.680	23.406	7.021
<i>Livestock :</i>								
Chicken	2	5,500	6,325	11.703	47.00	21.750	10.047	3.014
<i>Trade :</i>								
Shop	4	3,500	4,025	25.650	13.65	56.784	31.134	9.340
Souvenir	3	2,000	2,200	7.327	27.30	17.945	10.618	3.185
Food	4	2,000	2,200	6.225	32.13	11.374	5.149	1.544
Average					26.89			

4 Conclusions and Suggestion

4.1 Conclusion

Microfinance institutions under the auspices of PUAP in Magelang, even though they have obtained legality from the Ministry of Cooperatives and OJK, are not the same in terms of institution naming. Some are called LKMA Cooperatives, Gapoktan LKMA Cooperatives, and some do not use the word LKMA enough with the name Koperasi Tani

LKMA Ngudi Luhur is the best LKMA, this is seen from: (i) institutional aspects that already have legality, already work in offices supported by office equipment complete with employees who are paid regularly every month and already have SOP in running a loan storage business; (ii) aspects of business implementation that are close to the borrowing requirements made by formal financial institutions and (iii) aspects of business development that experience an average capital increase of 29.86 percent per year.

The ability of LKMA venture capital loans is still relatively small. From LKMA loans, farmers can only fulfill no more than 30% of the business capital needs. Based on the net income of the farmer, the farmer is still able to pay if the loan amount is increased by 75 to 100% of the total loan given.

4.2 Suggestion

LKMA still faces obstacles to channeling loan assistance to farmers due to limited capital. To realize the PUAP program's objectives for overcoming capital problems in the farming, it needs a liquidity assistance to LKMA. In addition, the fulfillment of LKMA administrative requirements to become a formal financial institution should be improved.

“Ngudi Luhur” could become as LKMA role model, in fulfilling the administrative requirements.

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