Performance of Microfinance Institutions of Cayenne Chilli (Capsicum frutescens L) Farming

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Abstract. The research was conducted to determine the performance of Sauyunan Agribusiness Microfinance Institutions (LKMA) and its Sustainability in rawaichilli farming at Cikeusal Village, Talaga District, Majalengka Regency. The quantitative descriptive and qualitative descriptive research methods was applied by involving 71 respondents. The results showed that the performance of LKMA was shown by the level of liquidity of 189.9%. The level of solvency was below standard and the ratio of debt to equity was only 24.125%, while the ratio of debt to total assets was above the standard (35%). LKMA Sauyunan was not profitable for the ratio of Net Profit Margin (NPM) 28.75%, Return On Assets (ROA) 5.05%, Return On Equity (ROE) 10.95%, Return On Investment (ROI) 5.05% below the 30% standard. This finding concludes that rawaichilli farming could not be sustainable and urgently requires an innovation to improve community-based agribusiness microfinance by adopting various best-practice experiences in a number of microfinance institutions.

1. Introduction
Capital is one important component in farming activities. Provision of capital is often a barrier to business especially for small scale farmers. Microfinance has for more than 30 years been portrayed as a key policy and program intervention for poverty reduction and “bottom-up” local economic and socio development [1]. Various breakthrough programs have been carried out by the government, including: 1) Farmer Income Improvement Project (Ministry of Agriculture), 2) Joint Business Groups (KUBE) fostered by the Ministry of Social Affairs, 3) Efforts to Increase Welfare Family Income (UPPKS), guided by BKKBN, 4) Strengthening SME Programs implemented by the State Ministry of Cooperatives and SMEs, and 5) community empowerment programs in various forms and strategies. Where all these programs are intended to provide capital reinforcement to the poor (community groups who do not have access to capital / bank credit) [2].

Based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises, the productive economic business activities, especially micro, small and medium enterprises have been given a decent place. The framework for community empowerment through micro, small and medium enterprises can be done among others by strengthening capital, institutions and human resources, marketing, production and processing as well as design and technology. The main problem in capital is the development of capital itself, how can the capital be used as well as possible in agricultural business and return capital with profitable results [3]. Farmers in returning capital for their farming is quite difficult because capital is sometimes used for daily needs. As in [4] that the low performance of microfinance institutions,
especially can be seen from the aspects of (1) the low level of credit repayment; (2) the low morality of the implementing apparatus; (3) the low level of mobilization of public funds.

This is also the case with Agribusiness Microfinance Institutions (LKMA). In the implementation LKMA provided national credit loans have not been given a decent place. MFIs for micro, small and medium-sized business groups only have access to less than 25% of the disbursement of loans provided in the national credit system. The proportion of access to national credit will be smaller by no more than 10% when viewed in terms of the field of agricultural business, especially for farmers who are currently farming chilli. Although the provision of capital is not in line with expectations, at least it can be used to help reduce capital problems. But that is not the case with LKMA Sauyunan, the capital that has been given in the past few years has not shown any significant development, so it needs to be explored regarding the obstacles and problems faced by LKMA through its performance.

2. Literature Reviews

Research related to Microfinance Institutions (LKMA) has been widely studied before. The difference of this research with the previous research lies in the place of research, technical analysis used liquidity ratios include current ratios and fast ratios, solvency ratios include debt to equity ratios and debt to total assets ratios and profitability ratios which include Net Profit Margin, Return On Assets, Return on Equity, and the last Return On Investments are stability and the data used are data from the last 4 years based on data from the annual RAT report.

Research conducted [3] in 4 LKMA namely LKMA Berkah, LKMA Mandiri Jaya, LKMA Bina Sejahtera, LKMA RukunTani located in the Districts of Dramaga, Ciomas, Ciawi Bogor using census methods and data analysis using quantitative analysis. Efficiency of LKM-A performance using Frontier Analysis (FA), and farmers' income before and after being incorporated in LKM-A using analysis of farm income R/C ratio with data processing methods using Microsoft Office Excel 2007. In the four LKM-A studied in the Regency Bogor that LKM-A which is inefficient in performance is a blessing LKM-A due to the services implemented by LKM-A Blessing is 20% in agricultural distribution which is only 50%. There is an increase in the income of rice farmers in Bogor Regency after joining LKM-A (RukunTani LKM-A and Mandiri Jaya LKM-A) while those that have decreased (Bina Sejahtera LKM-A and Blessing LKM-A). Decreased income of farmer members of LKM-A Blessings because the performance on LKM-A Blessing is inefficient and the revenue generated is lower than the costs incurred after farmers are incorporated in LKM-A.

While the research conducted [5] is research to find out the performance of KSU LKM-A Sedyo Makmur with research results seen both in terms of leverage, productivity, efficiency, independence, operational and measurement of outreach and growth, but it looks not good in terms of portfolio quality, level of profit and financial independence. The strategy adopted is to increase capital by utilizing existing networks, increase credit offerings to customers / members who have good collectivity, expand markets while maintaining prudential principles of financial institutions and optimize the performance of credit officers to support market expansion and management of members/potential customers.

The research aimed to find out the amount of income of chilli farmers in the sand field and analyze the factors that influence the production of chilli land in the Ngepet hamlet, Srigading village, Sanden sub-district, Bantul district, DIY conducted by Lino, et al. Based on the results of the analysis it can be concluded that: (1) Variable land area (X1) has a significant effect on the production of large chilli sand fields in the Ngepet hamlet, Srigading village. (2) Variable number of seedlings (X2) significantly influences the production of large chilli sand land in Ngepet sub-village, Srigading village. (3) Variable number of workers (X3) has a significant effect on the production of large chilli sand fields in the Ngepet hamlet, Srigading village. (4) Variable amount of fertilizer (X4) does not significantly influence the production of large chilli sand in the Ngepet hamlet, Srigading village. (5) The variable number of pesticides (X5) significantly influences the production of large chilli sand land in the Ngepet hamlet, Srigading village. (6) Variable land area, number of seedlings, number of laborers, amount of fertilizer
and the amount of pesticides have an overall effect on the production of large chilli land in the Ngepet hamlet, Srigading village.

Khazanani conducted research aimed at providing empirical evidence regarding the effect of the use of land area, seed, fertilizer, fungicide, insecticide, and labor production factors on the amount of chilli production. The chilli farming variables that significantly influence chilli production are land area, seeds, labor and fertilizer. Variables that are not significant to chilli production are pesticides because they are used routinely by farmers without considering the presence or absence of pests/diseases resulting in overuse. The average efficiency of chilli farming techniques in Bulu District, Temanggung Regency reaches 0.83, almost close to 1, which means that chilli production in the study area is not efficient so there is still a 17 percent chance to increase chilli production in the area. Price efficiency in the study area is greater than 1, that is equal to 1.259 which means the use of production inputs has not been efficient. Economic efficiency will be achieved if a farm reaches technical efficiency and price efficiency. The value of Return to Scale in chilli farming in Gondosuli Village is 0.976. This means that the chilli farming is in a condition of decreasing Return to Scale. A DRS value of 0.976 means that if an additional factor of production is added by one percent, it will incur an increase in output by 0.976 percent. The results of the calculation of income and costs of chilli farming obtained an R/C ratio of 1.277.

Based on these studies it can be concluded that whether or not farmers are incorporated into LPM-A cannot guarantee the increase or stability of farmers' income because of inefficient LPM-A performance and revenue generated is lower than the costs incurred after farmers are incorporated in MFIs-A. In addition to the inefficient performance of LPM-A that affects farmers' income, there are other factors that can affect farmers' income such as land area, number of seedlings, number of workers and the amount of pesticides that have an overall effect on the production of large chilli sand fields while the amount of fertilizer no significant effect on the production of large chilli sand fields. However, empirical evidence shows that chilli farming variables that significantly influence chilli production are land area, seeds, labor and fertilizer. Variables that are not significant to chilli production are pesticides because they are used routinely by farmers without considering the presence or absence of pests/diseases resulting in overuse. The average efficiency of chilli farming techniques which reaches 0.83 is almost close to 1, which means that chilli production has not been efficient so there is still a 17 percent chance to increase production. Price efficiency is greater than 1, that is 1.259 which means the use of production inputs is not efficient. Economic efficiency will be achieved if a farm reaches technical efficiency and price efficiency.

3. Method
The determination of the location of the research was carried out intentionally (purposive sampling) namely one of Sauyunan agribusiness financial institutions (LKMA) in Cikeusal Village, Talaga District, Majalengka Regency from December 2018 until June 2019. The quantitative descriptive and qualitative descriptive research techniques was adopted by involving 71 respondents. Data collection techniques used instruments in the form of a questionnaire (questionnaire). The data used in the last 4 years was based on data from the annual report (RAT). The sustainability of LKMA of rawachi chilli farming was done by calculating the ratio of LKMA performance measurement standards. The analysis techniques used was included measurement of financial performance consists of:

- Liquidity ratios include current ratios and fast ratios.
- Solvency ratio, including the ratio of debt to equity and the ratio of debt to total assets.
- Profitability ratios, including Net Profit Margin, Return On Assets, Return On Equity, and Return On Investment
- Stability
4. Result and Discussion

Microfinance as defined in literature such as Burrit (2006), Ledger (1999), and Wright (1999) is the provision of a broad range of financial services which includes savings, loans, transfers, insurance and remittances. Based on the above definition, of several MFI services not all services are available but depend on the location and nature of SMEs.

Analysis of several financial ratios that have been carried out based on Table 1.1. It can be seen the financial performance of the Agribusiness Microfinance Institutions (LKMA) by comparing the average ratios during the period 2015 - 2018 (internal averages) and the ratio standards are as follows:

4.1 Liquidity Ratio.

In this case the authors take the research indicators of the Liquidity Ratio is the current ratio and fast ratio.

| Tabel 1. LKMA Sauyunan Financial Ratios |
|-----------------------------------------|
| Financial ratio                        | 2015 | 2016 | 2017 | 2018 | Internal average |
|-----------------------------------------|
| Likuiditas                              |      |      |      |      |                 |
| Current Ratio                          | 278% | 169% | 167% | 151% | 191%            |
| Fast Ratio                             | 273% | 167% | 165% | 150% | 188,75%         |
| Solvabilitas                           |      |      |      |      |                 |
| Debt to equity ratio                   |      |      |      |      |                 |
| Debt to total assets ratio             |      |      |      |      |                 |
| Profitabilitas                         |      |      |      |      |                 |
| NPM                                    | 30%  | 25%  | 30%  | 30%  | 28,75%          |
| ROA                                    | 5,9% | 4,4% | 5,35 | 4,6% | 5,05%           |
| ROE                                    | 9,2% | 10,3%| 12%  | 12,3%| 10,95%          |
| ROI                                    | 5,9% | 4,4% | 5,3% | 4,6% | 5,05%           |

Current ratio

That the current average ratio from 2015 to 2018 was 191% or compared to 191: 1. This means that each Rp. 1 current debt was guaranteed by Rp. 0.191 current assets, while in 2018 the current ratio was 151% or 151: 1. This means that each RP 1 current debt was guaranteed by Rp. 0.151 of current assets, but on LKMA's financial statements, current assets cannot cover long-term obligations. Then this is declared illiquid because according to [6] current assets must be twice as large or 200% of current liabilities. In the financial statements presented it turns out that the assets are higher than the current liabilities but do not meet 200% of the current liabilities.

Based on the current ratio growth which has occurred over the past four years it is said to be unfavorable, because the current ratio is under 200%. This is caused by a decrease in current assets when compared to an increase in current debt each year. The standard ratio is below the average standard. This shows the inability of financial institutions to increase current assets to cover their current liabilities. To increase the current ratio, it is better for this financial institution to maximize the use of its current assets by increasing income and reducing the amount of short-term debt.

Quick ratio

This fast ratio is used to measure the company’s ability to meet short-term obligations. The fast ratio of the average in 2015 to 2018 was 188.75% or compared to 188.75: 1. This means that the short-term liabilities of Rp 1 was guaranteed by current assets other than inventory amounting to Rp 0.18875. Whereas in 2018 LKMA Sauyunan's fast ratio is 150% or compared to 150: 1. This means that the short-term liabilities of Rp 1 was guaranteed by current assets other than inventories of Rp 3,88,849, so that in 2018 there will be a decrease from the internal average.
Based on the financial statements presented that the current assets owned by LKMA is greater than the current debt, so it is able to cover the current debt owned by LKMA. If reduced by inventory/inventory, the current assets owned are more reduced in covering the company's current debt. The industry average is 100% (1:1) or 1.5 times where the institution's condition is better than other institutions. When this condition occurs, it is not necessary to sell inventory/inventory if you want to pay off current debt, but can sell securities or collect receivables [7]. Therefore, LKMA can increase the company's current assets to be able to return the current debt of financial institutions.

4.2 Solvency Ratio

Debt to equity ratio

This ratio measures the percentage of funds provided by lenders or managers. Liabilities include short-term debt and all long-term debt. And every rupiah of its own capital is used as collateral for debt. The debt to equity ratio in 2018 of 16.8% means that this ratio shows that the lender provides 16.8% funding for each rupiah provided by the borrower. Meanwhile, according to the average ratio in the period 2015-2018 amounted to 24.125%. This means that this ratio shows that the lender provides 24.125% funding for each rupiah provided. Percentage ratio in 2018 with the company's internal average ratio. In 2018 the percentage is above the institution's internal average while in 2017 it is 12.5%. This means that this ratio shows that the lender provides 12.5% funding for each rupiah provided by the borrower. Then it can be compared between the percentage in 2017 lower than in 2018 which has increased. This condition is said to be good, because it appears that the capital owned by the institution is greater than the total debt owned by the institution.

Debt to total assets ratio

The average internal ratio for the period of 2015 to 2018 was 52.97% or compared to 52.97:1. This means that every Rp.1 of total assets can cover Rp.52.97 in debt. The ratio of debt to assets in 2018 is 62.7% or compared to 62.7:1. This means that every Rp.1 of total assets can cover Rp.62.7 of debt. This causes the ratio of debt to total assets in 2018 to be good because it is above the internal average standard. The higher this ratio, the greater the financial risk, the lower this ratio, the lower the financial risk. The industry standard measurement is 35% [7].

4.3 Profitability Ratios

Net Profit Margin (NPM)

The internal average in 2015 to 2018 was 28.75% or equivalent to 28.72:1. This means that every Rp 1 asset invested can generate a profit of Rp.0.2872. Net Profit Margin (NPM) in 2018 is 30% or compared to 30:1. This means that Rp.1 of the invested sale is able to generate a profit of Rp.23,403,000. So that the NPM ratio in 2018 can be said to be good because it is above the internal average. LKMA Sauyunan can reach the standard ratio of similar financial institutions that is 30% [7].

Return On Asset (ROA)

The internal average of LKMA Sauyunan in 2015 until 2018 was 5.05% or comparable to 5.05:1. This means that every Rp 1 asset invested can generate a profit of Rp.0.505. Return on Assets (ROA) in 2018 of 4.6% or compared to 4.6:1. This means that Rp.1 of the invested assets is able to generate a profit of Rp.23,403,000. So that the ROA ratio in 2018 can be said to be less good because it is below the internal average. However, it cannot reach the standard ratio of companies of the like is 30% [5]. Then the company is said to not profitability in generating profits from the total assets owned. To maintain the profits derived from the total assets of the institution, it is better to increase revenue so that the profits are greater and can reach other measurement ratio standards.

Return On Equity (ROE)

The average internal ROE for the period of 2015 to 2018 was 10.95% or compared to 10.95:1. This means that every Rp. 1 of the invested capital gets a profit of Rp.0.1095. Return on Equity in 2018 was 12.3% compared to 12.3:1. This means that Rp 1 of their own capital invested has a profit of Rp.0.123. In 2018 ROE LKMA Sauyunan is quite good because it is above the company's internal
average but still below the standard ratio of the industry average of 40% [7]. LKMA’s position is getting worse because of the low profit generated.

Return On Investment (ROI)

Internal average for the period of 2015 to 2018 was 5.05% or compared to 5.05: 1. This means that every Rp. 1 asset invested gets a profit of Rp. 0.0505. ROI in 2018 is 4.6% compared to 4.6: 1. This means that Rp. 1 of their own invested capital gets a profit of Rp. 0.046. In 2018 ROI in LKMA Sauyunan is not good because it is below the institution’s internal average but is still below the standard general ratio of the industry average of 30%, if it is below the average then the condition of financial institutions is not good, and vice versa [7].

From the three ratio analyzes that have been carried out namely Liquidity Ratios, Solvency Ratios and Profitability Ratios, it can be seen how the Financial Performance contained in LKMA when measured by internal averages and financial performance measurement standards that show that LKMA Financial Performance in 2015-2018 well. However, the liquidity calculation shows that LKMA has a fairly good fast ratio. Where for current assets is able to overcome current debts so LKMA can overcome institutional debts.

Sustainability of LKMA Sauyunan can be seen from the ability of LKMA that operates sustainably by successfully suppressing outgoing costs and ways to generate profits or raise capital properly and sustainability. LKMA sustainability can be categorized as good because it can suppress financial conditions so that there is no debt to institutions or other parties as well as economic sustainability that is unfavorable because of the unhealthy needs of operating costs or other funding costs. The rawaichilli farming in LKMA Sauyunan is related to the financial condition of LKMA. Where LKMA members have a livelihood as rice farmers as food and cayenne pepper farmers as horticultural crops. Because the land at the research site can only be planted with these two plants, in this study it can be said that rawaichilli farming is related to the financial condition of LKMA where members’ income results are obtained from the productivity of cayenne plants.

Rawaichilli farming has a dependency on LKMA. LKMA plays an important role in the sustainability of rawaichilli farming. If farms get high yields, farmers’ income will increase and it will facilitate payment and lending on capital to LKMA and vice versa if the production of cayenne pepper farms decreases or fails to harvest, farmers’ income will decrease so it affects the payment process at LKMA so there is no financial smoothly on members for the next payment period.

5. Conclusion
The financial condition of LKMA can be concluded not running as expected, based on LKMA’s performance namely; substandard liquidity is 189.9% should be 200%, the solvency ratio does not solve based on the ratio of debt to equity has a figure below the standard of 90% which is 24.125% while the ratio of debt to total assets has a figure above the standard measurement of 35% which is 52.97%. The profitability ratio is not profitability NPM 28.75%, ROA 5.05%, ROE 10.95%, ROI 5.05%. Because LKMA was below the 30% standard, so the sustainability of rawaichilli farming is not going well with LKMA and as one solution to improve community-based agribusiness microfinance by adopting various best-practice experiences in a number of microfinance institutions.

Similarly, [8] stated that there have been many development efforts undertaken by the government in the development of rural micro and small businesses, but still face several problems in business. For example capital savings, mainly due to lack of direct access to financial services and facilities provided by formal financial institutions (banks) or non-bank financial institutions. This means that most or all of the required investment funds (expansion or increase in production volume) and working capital come from informal sources. Funding sources vary greatly, from personal savings (owners or entrepreneurs), loans or financial assistance from family or acquaintances, loans from suppliers of raw materials, in the form of later payments, money in the form of payment in advance (in part or in total) buyers, to part profit invested. With limited capital it is an effort that must be made to improve the quality and productivity that will be locked. Product quality is sometimes improvised with
a limited number of goods produced so that the market opportunities they achieve can be missed. Capital support can provide wider opportunities for entrepreneurs to develop their business.

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