Rural development issue: a case study in Banyuwangi District, East Java Province

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Abstract. Rural people, as well as the farmers, deal with capital access for their business activities. Formal credit offered by the banks is not easily accessed by rural people due to rigid administrative procedures and collateral requirements. This paper aims to analyze rural people's access to formal credit offered by a Credit Union (CU) acting as the credit cooperative in Banyuwangi District, East Java. The study was conducted in 2020 in Banyuwangi District. Primary and secondary data collected were analyzed using a descriptive approach. Each debtor has to become a member of CU prior to borrowing credit with some requirements, e.g. paying principle and regular contributions, sufficient saving value as collateral, and willingness to pay an interest rate determined for a certain period depending on credit types. Types of business financed by CU are farm business, fresh fruit marketing, cow fattening, groceries, among others. Most of the rural businesses financed by CU were able to pay the credit on time. Each business feasibility was assessed carefully by the CU management prior to credit approval and responded quickly. CU members also get the advantage through receiving shared-profit distributed annually. The CU copes with limited capital as the members' demand for credit increases. The CU also has to compete with the relatively lower interest rate of the official subsidized credit, i.e. KUR (People's Business Credit), for its credit expansion. The government needs to encourage CU to grow in rural areas for rural people’s credit access through policy facilitation.

1. Introduction
Formal capital access is critical to rural people, either farmers or non-farmers, for financing their business. They access capital through both formal institutions and informal sources. Principally there are two formal financial institutions, namely banks and non-banks. Informal credit is relatively costly to debtors due to quite the high-interest rate charged. The non-bank financial institution consists of capital market (stock exchange), money market, saving-credit cooperative, pawnshop, insurance company, and pension fund, venture capital, leasing, and the factoring company. Indonesia’s Capital Market (PT BEI) and Commercial Banks are the main actors in the financial sector based on the fund distributed. However, capital in PT BEI is just accessed by the companies listed in this stock exchange. To some extent, banks are more accessible to more people. However, the formal procedures to access the bank’s credits are the main constraint to most rural people [1].

According to Law No. 25/1992 (Chapter 4), a cooperative is a business unit owned and managed by its members [2]. It aims to improve members’ welfare through mutual cooperation. Based on its business types, cooperative is classified into (i) production cooperative, (ii) consumption cooperation, (iii)
savings and loan (saving and credit) cooperative, and (iv) multi-business cooperative. The ultimate establishment of rural cooperatives is the fulfillment of rural people’s economic needs [3]. The existence of the saving and credit cooperatives in rural areas will ease rural people in accessing credit [4,5].

Total active cooperatives officially registered in 2019 in the Ministry of Cooperative and Micro-Small-Medium Business (UMKM) were 123,048 units. In 2017, the total savings and loans of cooperatives were 23,551 units from total cooperatives of 15,274 units. In 2018 number of cooperatives decreased as the Ministry of UMKM re-registered the active cooperatives routinely conducting annual members’ meetings (RAT) during the last three years. In 2015 there were 37,783,160 members of 150,223 cooperatives with a business value of IDR 266 trillion. Total members of cooperatives in 2019 were 22,463,738 persons with a business value of IDR 154.7 trillion [6]. The government streamlines the number of cooperatives by reducing those inefficient cooperatives.

This study aims to assess the rural people access to formal credit. Specifically, this study analyzes the rural people to get credit from the Credit Union (CU) Sang Timur in Banyuwangi District, East Java Province.

2. Materials and method
This study was conducted in Banyuwangi District, East Java Province, in February 2020. Focusing on a saving-loan cooperative, i.e. Credit Union (CU) Sang Timur, as a case study, the study explores its characteristics and performance.

All samples in this study were the members of CU Sang Timur getting self-reliance business credit from this cooperative. The samples were chosen randomly based on their availability and willingness for interviews. The performance of this cooperative was based on its report and management interview. The secondary data were collected from the CU Sang Timur profile published online. Primary data were gathered through individual interviews with the CU’s members who got credit from this cooperative. Data were analyzed descriptively.

3. Results and Discussion
3.1. The cooperative characteristics
Cooperative Union (CU) Sang Timur was established in 2007. The total number of members in 2019 was 2,506 persons, with member candidates of 5,622 persons. The early years of the Cooperative had 37 members consisting of teachers and staff working at Sang Timur Kindergarten, Elementary, Junior and Senior High Schools. CU Sang Timur keeps moving forward and gets innovative to serve its members sincerely. Membership of rural people in local cooperatives is important. Cooperatives may boost the participation of rural people in local development [7]. However, it is not easy to attract most rural people to become cooperative members.

The management promptly recruited staff for dealing with the CU’s daily activities. In February 2009, CU Sang Timur started applying for the official permit, and it got a temporary legal body in November 2009. In June 2010, CU Sang Timur got Legal Body from the Cooperative Service in Banyuwangi District, East Java Province. In 2009 this cooperative started opening its branch service offices (KP). There are 6 KPs at present, i.e.: (i) Karetan Service Office (Purwoharjo Subdistrict), (ii) Genteng Service Office (Genteng Subdistrict), (iii) Siliragung Service Office (Siliragung Subdistrict), (iv) Banyuwangi Service Office (Banyuwangi Subdistrict), (v) Sumberayu Service Office (Muncar Subdistrict), and (vi) Rogojampi Service Office (Rogojampi Subdistrict).

3.2. The cooperative membership
There are three membership types of CU Sang Timur. Each member has their own rights and obligations. Those members are: (i) Common member is any Indonesian Citizen able to implement legal conduct, who has the same economic interest such as other members, and who meets the determined requirement; (ii) Extraordinary member is any Indonesian Citizen or Foreigner who will become the CU member but not fully meets requirements such established in the CU Statute and Bylaws; and (iii) Member candidate is any Indonesian Citizen or Foreigners who have not yet met requirements of a common member or extraordinary member.
Some requirements to become the cooperative’s members are as follow: (i) Indonesian Citizen, (ii) Having the same economic interest as other members, (iii) Being able to implement legal conduct, (iv) Living and staying in the working areas of the CU, (vi) Willing to pay principal saving, mandatory saving, and welfare saving, (v) Complying with the CU’s statute and the rules of cooperative, and (viii) Willing to involve in Member Basic Education (PDA) or similar activities carried out the CU.

Membership application for a common member, if approved by the cooperative, is the contribution of IDR 350,000 consisting of (i) membership administration (IDR 25,000), (ii) principal saving (IDR 250,000), mandatory saving (IDR 25,000), welfare saving (IDR 25,000), SIBUHAR or instant saving and withdrawal (IDR 25,000). A common member pays mandatory savings every month.

Up to December 2019, the total members of CU Sang Timur were 2,506 persons consisting of 1,351 males and 1,155 females. During the last year (2018-2019), CU’s members increased by 8.72%. As many as 70% of CU Sang Timur members work as farmers (Table 1). An increased number of the cooperative’s members will improve its financial performance [8].

### Table 1. Trend of CU Sang Timur members, 2015-2019.

| Year | Member (persons) |
|------|------------------|
|      | Male | Female | Total |
| 2015 | 1,079 | 930   | 2,009 |
| 2016 | 1,136 | 939   | 2,075 |
| 2017 | 1,198 | 966   | 2,164 |
| 2018 | 1,252 | 1,053 | 2,305 |
| 2019 | 1,351 | 1,155 | 2,506 |

Source: CU Sang Timur [9]

### 3.3. Membership Savings

Membership saving (SK or Simpanan Keanggotaan) is a saving type counted as the CU’s asset or ownership. Membership saving comprises: (i) Principal saving (paid once when a person becomes a member, maybe installed for three months), (ii) Mandatory saving, which is paid every month or paid once at the end of the current year, any member who does not pay mandatory saving will get penalty through credit value discount to pay her/his obligation (Table 2).

### Table 2. The trend of CU Sang Timur members’ savings, 2015-2019.

| Item          | Members’ savings (IDR million) |
|---------------|--------------------------------|
|               | 2015   | 2016   | 2017   | 2018   | 2019   |
| Principal saving | 461    | 476    | 517    | 563    | 617    |
| Mandatory saving | 1,215  | 1,512  | 1,800  | 2,102  | 2,401  |
| Welfare saving  | 1,867  | 2,381  | 2,972  | 3,542  | 3,562  |
| Total          | 3,543  | 4,369  | 5,289  | 6,208  | 6,589  |

Source: CU Sang Timur [9]

Another saving type is welfare saving. It is paid by members when credit received from CU is equal to 1% of credit principal realized. Members are also allowed to increase this saving according to their own ability. The welfare saving value of each member is not more than 5% compared to the total asset per December of the current year. SK gets a profit share of CU’s business according to the statute/bylaws and the other rules. SK could not be withdrawn as long as he or she is still the CU’s member. SK could be utilized as credit collateral. Total members’ savings in 2019 as much as IDR 6,589 million which increased by 6.13% from the previous year. Savings are possibly deposited by non-members. However, non-membership savings are not counted as CU’s ownership.

Savings are possibly deposited by non-members (Table 3). However, non-membership savings are not counted as CU’s ownership. Types of non-membership savings are: (i) Sibuhar (Daily Interest
Saving) is freely deposited and withdrawn by the depositors during working hours; (ii) Sihaya (Feast Day Saving) could be withdrawn 30 days before the feast days such as Christmas (Christian), Idul Fitri (Moslem), Galungan (Hindu), Waisak (Buddha) and Imlek (Chinese New Year) and in accordance with the member’s religion or the member’s demand; (iii) Sijaka (Time Saving) is a saving deposited and withdrawn for a certain period according to an agreement. General rules to open a saving account is as follow (i) Free of administration fee when opening a saving account, (ii) Cost of saving account book replacement when it is lost or damaged due to the depositor’s is IDR 5,000, (iii) Cost of closing saving account is IDR 10,000, and (iv) The depositor could use saving as credit collateral. During the period of 2018-2019, other savings (non-member’s savings) increased by IDR 3,591 million (14.26%). The most demanded saving type is Sibuhar. Increased saving over time is one of the indicators that the cooperative is relatively efficient [10].

| Item                  | CU Sang Timur’s saving (IDR million) |
|-----------------------|-------------------------------------|
|                       | 2015  | 2016   | 2017   | 2018   | 2019   |
| CU Saving             | 8,052 | 9,422  | 10,757 | 10,956 | 12,080 |
| Time-Saving           | 11,709| 12,772 | 13,656 | 14,227 | 16,695 |
| Total saving          | 19,762| 22,194 | 24,413 | 25,183 | 28,774 |

Source: CU Sang Timur [9]

3.4. Credit application procedure and some credit disburse cases

Credit is defined by the CU management as the supply of money to meet members’ and other cooperatives’ demands in accordance with the spirit of economic empowerment. Types of members’ credit are (i) General credit aimed for working capital, investment, house renovation, education, among others with a credit period of 48 months or less; (ii) Credit for motor vehicle purchase with a credit period of 48 months; (iii) House and/or land purchase credit not for house renovation a with a credit term of 180 months; (iv) Seasonal business credit for seasonal revenue with a credit term of 3 or 6 months and not allowed for other purposes. There are other types of credit available for members. Smart credit is used for emergency credit based on the member’s saving balance. Investment and consumption credit may be used for the purposes of education, medical check, travelling, among others, in accordance with the member’s saving balance. Self-reliance business credit could be used for business using collateral other than the member’s saving balance. Thus, the members have the privilege to get credit from the CU with many types of credit available in accordance with the members’ purposes and saving balances and/or collateral they have. There is no lower credit limit, but its upper limit is subject to the borrower’s collateral and CU’s cash available [11].

Some procedure for credit application is as follow: (i) The debtor candidate fills up the application form for credit; (ii) The debtor candidate submits the filled-up form attached with his/her copy of ID, copy of wife’s/husband’s ID, (or copies of parents’ IDs if not yet married), Family Card (KK), Marriage/Divorce Certificate, and collateral document. Each document is one piece, and still valid; (iii) Willing to be verified in conjunction with the personal data through a survey; (iv) Considerations for credit application approval: (a) Track record as the CU’s member and debtor; (b) Member’s financial capability to pay the credit; (c) Member’s savings; (d) Credit collateral; (e) CU’s financial condition. If the credit application is approved, the applicant will be contacted by the management for credit disbursement. This procedure is common to the cooperatives in general. Prudent credit disbursement is carried out to minimize non-performing loans [12,13].

The following is some cases of the CU’s business credit disbursement as well as its installment and utilization in 2020. The borrowers are the CU’s members getting credit for running their business. These cases indicate that the rural people could access formal credit from the CU.

(1) Mrs. Welas Asih living in Bulusari Subvillage, Grajagan Village, Purwoharjo Subdistrict, Banyuwangi District, is the CU’s member since 2007. She and her family manage some businesses, i.e. (a) Dairy cows farming of 10 heads she raised since 2012. She could get six-liter (IDR 10,000/liter) of fresh milk daily for sale; (b) She also carries sea fish marketing since 2012. At first,
she was a peddler, selling sea fish from door to door. Currently, she opens a small shop for selling sea fish at home and also sells online using Facebook; (c) During the wet season, she also raises catfish farming using fish waste as feed. To improve her working capital, sustain her businesses, she borrowed credit from CU Sang Timur in 2019 as much as IDR 10 million with an interest rate of 24%/month or 24% per year. The collateral required by the CU for her credit was a motorbike BPKB.

2. Mr. Suyono living in Sumberjati Sub village, Grajagan Village, Purwoharjo Subdistrict, Banyuwangi District. He is the CU’s member since 2010 and working as a dragon fruit collecting trader who buys this commodity from five subdistricts in the district. He pays in cash to the farmers and buys dragon fruit on average 2 tons per day. Marketing areas of dragon fruit is Palembang (South Sumatra Province), West Java and Central Java Provinces. He hires five labor for harvesting and weighing the farmers’ dragon fruit. Around 5% of the marketed fruit gets rotten during transportation. In addition, he is also a dragon fruit as well as a tangerine farmer. As a CU’s member, he gets the privilege of borrowing credit such as low-interest rate and quick service or not more than one week he receives the credit. He borrowed IDR 150 million for additional working capital using the collateral of his truck BPKB. His loan payment was three years with an interest rate of 14% or an installment of IDR 5.9 million/month.

3. Mrs. Suyati living in Sumberjati Subvillage, Grajagan Village, Purwoharjo Subdistrict. She is the CU’s member since 2009. Her daily activity is as a lime farmer (0.5 hectares of own land plus 875 m²of rent land). She also sells gasoline using a mini-pump station with a capacity of 400 litre gasoline (premium and pertalite types). She is able to sell 20 to 40 litres of gasoline daily with a profit margin of IDR 750 per liter. In addition, she also runs a grocery store as well as a PlayStation game rental business. She borrows a 4-year term credit from the CU as much as IDR 15 million with an interest rate of 1%/month or IDR 462,500 monthly credit installment. She used the credit for purchasing the mini pump machine for the gasoline station and for expanding her lime farming through a land rent. Credit application to the CU is easy, i.e. she just called the CU management through a cellular phone, and she got a call back when the credit was approved and received. The collateral she submitted to the CU was a motorbike BPKB.

4. Mr. Eko Pambudi living in Purwodadi Village, Gambiran Subdistrict. He is a member of the CU since 2014. He works as a collecting trader of tangerine, dragon fruit, and mango produced by the farmers in Banyuwangi District, assisted by ten employees. He ships the fruit commodities to the central markets in Aceh Tamiang, Medan (Tuntungan), Jakarta (Kramat Jati, Tanah Tinggi, Angke), Bekasi (Cibitung) using an expedition company. He borrowed credit for the working capital of his business from the CU as much as IDR 100 million for 24 months of the installment period. He paid a credit installment of IDR 2,170,000 monthly, including an interest rate of 26% per year. He submitted his truck vehicle BPKB as collateral.

5. Mr. Agus living in Temurejo village, Bangorejo Subdistrict becomes the CU’s member since 2007 and works as dragon fruit and vegetables (pare, eggplant, cayenne pepper, lemongrass) farmer as well as a craftsman of aluminium furniture. For his farm business, he needs IDR 130 million for 0.35 hectares of dragon fruit production for one planting season or six months. The CU also promote his aluminium craft business. He borrowed a 24-month term credit of as much as IDR 300 million from the CU with an interest rate of 24% per year. The collateral submitted to the CU was a land certificate.

6. Mr. Sunarlan living in Temurejo Village, Bangorejo Subdistrict raises broiler since 2016. As a broiler farmer, he has a partnership with an investor. He raises 2,500 birds per cycle with 6 to 9 periods per year. He borrowed credit from the CU as much as IDR 10 million for a 3-month installment with 2% interest per month. The credit was used for the chicken coop improvement and purchase of some equipment. The collateral submitted by the debtor was BPKBs of two motorbikes.

7. Mr. Samsuri living in Temurejo Village, Bangorejo Subdistrict, produces vegetable seedlings (cayenne pepper, red chilli, tomato, cauliflower, broccoli) since 2010. He has 0.5 hectares of farmland for growing vegetable seedlings. He became a CU member in 2017. He borrowed credit...
of IDR 30 million from the CU for constructing the building where the employees were working. The credit term was 12 months with an interest rate of 2%/month. He submitted a pick-up car BPKB for the credit collateral.

Interest rates were subject to credit installment types, i.e. flat, annuity, and effective. The effective installment type was charged with 2% monthly interest or higher than those flat and annuities. All of those CU’s debtors got prompt service, lack of complicated procedure, and relatively lower interest rate than that of commercial credit. The role of the CU’s management skill in managing depositors’ savings and credit disbursements to debtors is the main key to its good performance [14]. To some extent, subsidized credit, i.e. People’s Business Credit (KUR), offers lower credit than that of cooperatives. Micro KUR of not more than IDR 50 million with an interest rate of 12% per year is also interesting, especially for micro, small, and medium businesses. It is able to improve business performance [15-18]. At the CU’s management level, the low-interest rate of KUR is deemed as the competing credit market [19].

Prompt and good service of the CU management is among the determining factor the members borrow credit from this cooperative. In general, good management will improve the participation of cooperatives’ members, and in turn, it will boost cooperatives’ performance [20,21].

4. Conclusions
A cooperative establishment takes time, and it meets the members’ demands and follows the legal procedures. CU Sang Timur has been managed professionally as a business entity for its sustainability and people’s benefit.

To be a cooperative member, each person, based on his/her own will, has to follow the rules established. Membership savings are prerequisites that the members are willing to abide by the cooperative’s rules, and it is useful as the cooperative’s working capital and asset. Many types of savings and benefits are available to the members. Non-membership savings are the service provided by the cooperative that the rural people, in general, are able to have their own deposit accounts for future consumption as well as credit collateral. The CU’s members enjoy the privilege of getting credit according to their interests, purposes, and saving balances, as well as collateral they own.

The cooperative cope with a lower interest rate of subsidized credit for small and medium businesses offered by the commercial banks. It is a challenge to the cooperative to channeling the subsidized credit due to administrative and technical constraints. Given the friendly, quick, and less procedural service make the cooperative survive and grow.

The government needs to encourage through policy in favor of the rural cooperative serving the rural people who need credit for their working and investment capitals. In addition, the government needs to empower the cooperatives in rural areas to channel farmers’ credit with the service offices close to their residences and easier to access than those of commercial banks.

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