

# How do Lending Relationship Affect to Credit Accessibility in Cattle Farm in Indonesia?

Aslina Asnawi<sup>1</sup>, Sitti Nurani Sirajuddin<sup>2</sup>, Veronica Sri Lestari<sup>3</sup>

## Abstract

Financing aspect is one of the barriers still faced by the majority of beef cattle farmers in Indonesia. Today quite a lot of financing for both beef cattle breeding business sourced from banks or aid from the government. However, the accessibility level of funding is still relatively low. This study examines how the lending relationship between the farmers and the lenders affect to the funding accessibility for farmers. The intensity and duration of visits relationship between borrowers and lenders are the indicator of the level of relationship. The more closely the relationship will be higher levels of accessibility that demonstrated by the existence of credit support ever obtained by the breeders.

*Key words:* access to credit, cattle farm, lending relationship

## 1. Introduction

Beef cattle business is a business in the livestock sub-sector which needs support from various parties. It is necessary to meet the beef demand that likely increase as the increasing population size in Indonesia. One of the efforts is by increasing the cattle population and encouraging the development of its business in order to meet the beef availability.

Support given by the government is the provision of government assistance programs provided to farmers who are considered to have the potential to grow but constrained by capital. Besides the availability of a wide range of business loans and credit scheme program extended by several banks, which is one form of participation of the banks in supporting the development of animal husbandry in Indonesia.

However, the increase in the types and sources of funding are not always followed by increased accessibility of funding. Financing constraints are still barriers that can be sourced from two sides, from the breeders and from the banks. On the banking side, generally apply strictly to the selection of borrowers with credit collateral requirements difficult to fulfill by the breeder. Kumar and Francisco (2005) explained that from the banking side, their business are sometimes considered as not being feasible and vulnerable to the risk and has low credit limit and requires high monitoring costs. The same thing is described Nurmanaf (2007) that from the view point of bank, there was

| <sup>1,2,3</sup>. Teaching Staff of Socio Economic in Animal Science Faculty in Hasanuddin University, Makassar, Indonesia

still a bottleneck in the realization of credit to the agricultural sector in general due to the fact that they consider such business is very risky business and they apply the prudence principles, so that selection of client becomes very strict with the collateral requirements, which in general are not in possession of the farmers. Meanwhile from the breeders' point of view, they are handicapped by collateral requirements, administrative procedures are complicated and take a long time, and the lack of available information about the fund sources.

Based on previous studies conducted Asnawi (2013a) and Asnawi (2013b) showed several aspects affect on access to credit in the bank: the availability of information about the source of funding for farmers who are still lacking, the relationship with the lenders are relatively low, the requirements at the time of the credit proposal is still considered primarily collateral difficult to fulfill, procedures or stages in a relatively long credit proposal and the location or distance with a relatively distant lenders. This is the same with Hyz (2011) which stated that some of the barriers in accessing bank credit is the high interest rates, collateral requirements required by the bank, the procedure and the length of time associated with the loan proposal.

This study focuses on how to improve the lending relationship between the lenders and the farmers . Boot and Thakor ( 1994) in their findings explained that the benefits able to be obtained from banking relationship between the borrowers and the banks are going to reduce the inefficiencies in the form of the increased in flexibility to negotiate in getting a loan, and one of the visible aspects is the duration or length of the relationship between those two parties. Almost as described by Diamond (1991) that if the banking relationship runs smoothly, it will reduce the inefficiency so that the company obtain the loan again will certainly be considered to have a good reputation and will be easier to obtain a the loan for the next time.

The results of the study Petersen and Rajan ( 1994) find that companies in obtaining debt if concentrate on keeping his relationship with the lender (bank) then they will get a smaller interest rate . If the relationship with the banks can be maintained properly by maintaining communication and share information that will have a positive impact on the growth of the company (Binks & Ennew, 1996). Behr, Entzian, and Guttler (2011) examined the intensity of the relationship between borrowers and lenders on microlending by using the proxy received the loan amount, and use the duration or length of relationship established between a borrower with a lender. The results showed that the more intense the relationship between the two parties, the greater the benefits received are getting a low number of required collateral.

The benefits of the relationship is going to reduce the information asymmetry between the two sides , the borrower will obtain much more information about a few things including information about funding. Another benefit obtained from the relationship are: will provide a more flexible space and flexibility to the previously agreed contract. In addition to the monitoring will make the relationship between the two sides are getting close (Boot & Thakor, 1994).

Studies related to the lending relationship between the farmer and the lender has not been investigated so theoretical and empirical support is still very limited. One approach used in this study is referring to some of the results of empirical studies related to

relationship lending between borrowers and lenders in the small and medium enterprises, although its characteristics have some differences.

## 2. Research Methods

This research was conducted in the districts: Bone, Bulukumba, and Barru Gowa in South Sulawesi, Indonesia. South Sulawesi is one of the Indonesia's beef cattle development with large livestock numbers (1.107.124 beefscatles) in 2012 (Department of Animal Husbandry and Animal Health South Sulawesi, 2012).

The population is scattered beef cattle breeders in South Sulawesi. Objects that were targeted research hereinafter referred to as the unit of analysis is a beef cattle farmer and never ever obtain credit from the banks and government assistance programs . The samples in the four regions was done by using two- level sampling group or two stage cluster sampling ( Supranto, 2007). Samples are collected by using 'the two stage sampling technique'. This technique is applied because the population spreads in some regencies in South Sulawesi Province, and not all regencies in the first stage will be included in this research.

The first step, choosing the district as the first group of samples selected in this case four districts are districts Bone, Bulukumba, Gowa, and Barru. The fourth election district to represent each region in South Sulawesi division according to geographical location of the region. Another consideration is that the area is a regional center for the development of beef cattle in South Sulawesi, and has a number of groups of farmers/livestock and livestock numbers are too big. The next step is choosing beef cattle breeders as a sample of districts that have been selected. The number of farmers to the four counties around 157.014 farmers will be selected and sampled proportionately from each district is 109 persons of the district Bone, 40 people from Bulukumba district, 45 people from Gowa district and 26 people from the district Barru.

This study used data from the farm business and has never ever get capital assistance. Source of data derived from primary data is data obtained from respondents in the form of data on the intensity of communication established between the farmers and lenders, the number of visits to both farmers and lenders opposite of the lender to farmers, and data on whether or not the farmer never obtain credit . All data is expressed in the questionnaire as a research instrument . Secondary data were obtained from the Bureau of Statistics South Sulawesi in the form of livestock population growth data, and other data associated with this study. The lender in this study is that the government provide funds as well as in the form of live cattle; and the banks that extend credit and business credit program for beef cattle breeding business.

Analysis of the data used in this study is the use of statistical analysis inferens using multiple regresi. Lending relationship using the proxy intensity of communication between farmers and lenders, the number of visits the breeder to financing sources and amount of funding the donor visits to farmers. Accessibility of capital is measured by whether or not farmers ever get credit.

### 3. Results

Effect the accessibility of capital lending relationship is tested by using multiple regression analysis . Multiple regression results obtained by using the Statistical Package for Social Sciences (SPSS) can be seen in Table 1. From ANOVA or F test , obtained the F count was 151.504 with a significance level of 0,000. Therefore the probability (0.000) is smaller than 0.05 then the regression model can be used to predict the accessibility of venture capital on beef cattle farms. Or it can be said that the intensity of communication, the number of visits the farmers and the number of visits lender banks to farmers jointly affect the accessibility of capital on the farm Sapi pieces. The regression equation generated in this study are as follows:

$$Y = -0,294 + 0,111X1 + 0,029X2 + 0,161X3$$

<i>Variable</i>	<i>Coefficient</i>	<i>t-Value</i>	<i>Sig.</i>
<i>Constant</i>	-	-5,067	0,000*
<i>Communication intensity</i>	0,248	3,724	0,000*
Visiting the farmers to the lender	0,089	1,333	0,184
Visiting the lender to the farmers	0,535	6,997	0,000*
N = 220 R <sup>2</sup> = 0,673 F-Value = 151,504 * signifikan 5%.			

The results showed that the intensity of communication and frequency of visiting the lender to the farmers is influenced and have a positive relationship to the accessibility of capital breeders ( $\alpha = 5\%$ ). This means that the more intense communication is established and the more frequently visited locations breeder lenders will increase the accessibility of capital . Well-established communication between the sources of financing will allow farmers and ranchers to access financing both from banks or aid from the government. This is because farmers usually do not hesitate and have plenty of time to ask a few questions related to how to order their credit proposals acceptable proposal. Surely they will get answers and guidance from the banks in accordance with what they need. With that the farmer can repair, equip and prepare everything that is needed at the time of loan application proposal. This of course will vary with the farmers who do not have a previous relationship with the banks. The banks in this case it took time to identify prospective debtors so that will add to the time of loan disbursements. In the process of the selection of borrowers, lenders will consider a few things: 6C 's like: the character of borrowers, the extent to which the goodwill of farmers to repay debts, capital, the amount of equity capital owned by farmers, business capacity they have to earn a profit, collateral, assets owned by farmers as loan collateral, condition of economy that may affect the business of borrowers and constraints or barriers that do not allow a business dilaksaakan in certain places. Especially the location of poultry farms eligibility factors need to be considered not to be in or near residential areas of general business location (Rival *et al.*, 2007).

Nurtured relationships between banks and farmers will provide several benefits. As described by Boot and Thakor (1994) that the benefits to be gained from the banking relationship between the borrower and the bank is going to reduce inefficiencies in the form of increased flexibility to negotiate in getting a loan, one aspect of the visits is the duration or length of the relationship between the two sides the forged.

The more frequent visits to locations breeders lender will also increase the accessibility of capital. Visit lender typically used by farmers to seek the needed information related to the procedure of loan disbursements. Besides the banks can see directly how the development of the farm business dilkauan by prospective borrowers.

Unlike the case with the frequency of visits to the lender breeders. From the results of the analysis were not significant. It can be explained that the intensity of visits made did not affect the ease of farmers in accessing financing. This is reinforced by the relatively remote location of rancher so sometimes there is no time and initiative on the part of farmers to come to the financing sources to find information about financing.

Type of financing obtained by farmers is not just one type of financing but could be more than one type of financing. Breeders can obtain business loans from banks and on the other hand they also can get help from the government. This means that farmers who have a good relationship lending has the ability to build relationships with multiple funding sources. Farmers who obtain government grants and loans from the banks most breeders who are members of one group of farmers/livestock.

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