

Stories from the Field



A Light at the End of the Debt Tunnel

How SAFIRA is increasing incomes for farmers in East Lombok through access to finance



Ibu Zohrah (right), a smallholder maize farmer from a remote coastal village of Sekorah in East Lombok, and her daughter, Hani. (Photo: SAFIRA/Nina FitzSimons)

ABOUT SAFIRA

Strengthening Agricultural Finance in Rural Areas (SAFIRA) is a multi-year program under AIP-Rural aimed at developing and formalizing value chain financing with selected partners in eastern Indonesia to benefit smallholder farmers. Value chain financing is one way to scale-up cost effective, appropriate and sustainable lending to smallholder farmers without increasing transaction costs. SAFIRA partners with financial institutions, financial consultants, agri-businesses and farmer's groups.

SAFIRA aims to increase the incomes of up to 6,000 farmers by appropriate forms of credit allowing farmers to increase the purchase of inputs from suppliers, improve the quality and quantity of production as well as hiring labour where applicable to service a wider area of land. SAFIRA works in East Java, West Nusa Tenggara, East Nusa Tenggara, and South Sulawesi.

In the small, remote coastal village of Sekorah in East Lombok a group of nine female farmers have gathered at one of the women's houses to discuss a new loan initiative being supported by SAFIRA. SAFIRA – an Australian and Indonesian government supported program – is looking at ways to improve access to financial services for smallholder farmers by leveraging their connections and network within existing agricultural value chains. It works with a range of partners, including rural banks and other financial service providers, to show how developing products for the 'bottom of the pyramid' can benefit both the bank and farmers.

Many smallholder farmers in Indonesia find it difficult to access financial services. Regulated lending bodies have barriers to access, such as onerous lending requirements or unsuitable products (such as requiring repayment after 1 month, or lending for asset purchase). Financial education is also not readily provided by lenders, and classic financial institutions see high transaction costs with little returns in servicing this segment of the community. This problem is not endemic to Indonesia, with access to financial services for the poor being one of the main targets of the UN Sustainable Development Goals in alleviating poverty.

Most maize farmers in East Lombok own small plots of around one hectare. The area is arid and the farmers practice dry-land farming. 71% of farmers targeted by SAFIRA in East Lombok are living below the poverty line. For women farmers in Sekorah, their main struggle is putting food on the table and sending their children to school.

SAFIRA is currently supporting hundreds of maize farmers in East Lombok. SAFIRA connects these farmers to a local bank, seed and inputs suppliers as well as a research institution, to improve loan products for maize farmers and enable them to purchase the necessary agricultural inputs and services, apply good agricultural practices and eventually repay the loan according to the harvest cycle.

One of the Sekorah women farmers is Zohrah. Zohrah doesn't know her exact age as she doesn't own a birth certificate, but she thinks she is in her 50's. Zohrah inherited her father's 600m² of land when he died and became a maize farmer herself. Zohrah lives in a dirt-floor hut which rests in the corner of her maize field. She is a single mother of four who still has two grown daughters at home along with three of her grandchildren. Zohrah's eldest daughter, Hani, is 35 and profoundly disabled.



Maize harvest in Sekorah village.
(Photos: SAFIRA/Yogi)

Zohrah has been married three times. Her first husband died when the family could not afford to take him to the doctor. Zohrah remarried two more times, but divorced after her second husband did not return from working in Malaysia and her third husband wished to take a second wife. This story is not unusual for women in East Lombok, where there is a high number of women-headed households.

Like others in her village, Zohrah lives a subsistence lifestyle, relying on income from her maize crops and working as an itinerant day labourer for Rp.30,000 (\$3) a day. "Before SAFIRA, I had difficulty making ends meet", says Zohrah.

"We are lucky to eat meat once a year at the end of Ramadan, and that's usually donated by our neighbours", she whispers. Prior to SAFIRA, Zohrah produced 2.9 tonnes of dried maize a season. "After I paid off my loans, this left me with Rp.2,607,000 (approximately \$260) to meet all the family needs for the year. Because of this I can never get ahead", explains Zohrah.

As with other farmers in East Lombok, Zohrah previously relied on traditional money lenders (ijon) to pay for her agricultural inputs. "The interest rate for the ijon was close to 50%", says Zohrah, "Last year we had no rain and I could not pay back the Ijon in full. I feel like I just get poorer by the year".

With an introduction to value chain finance from SAFIRA, a well-known local bank has developed a loan product suitable for maize farmers like Zohrah. "The bank's representative came to the village and explained about the credit program", says Zohrah. "We were surprised because they did not ask for collateral", she states.

In East Lombok most farmers do not have proof of title as land is not usually registered with the planning department. In addition, most people marry and divorce traditionally so they would not have legal documents attesting to their legal status. "The bank said they only needed my identity card, or letter from the sub-district stating I had applied for one, and a letter from the village Head declaring my status as a divorcee", explains Zohrah. "I was able to meet these requirements and the bank's representative helped me fill in the forms", says Zohrah.

Many of the villagers in Sekorah are not literate, with adults having only attended on average six years of school. "The process of applying for a loan is frightening", says Zohrah. "So, having someone from the bank coming to us was very helpful".

The women all agree that the flat interest rate of 4.5% over six months was enough incentive to apply for the loan. "An interest rate like that is like gold", says Zohra. "Credit from our local retailer for up-front seed and fertilizer is 30%. The money lender is 50%. The interest from the other banks for a business

loan is 11 to 13%, and we would never be able to meet the application requirements. So, this loan from [the bank] and SAFIRA really is a life-saver", says Zohrah.

Zohrah borrowed Rp.5 million (\$500) from the bank to buy good quality maize seed, herbicides, and fertilizer. "I was even able to pay for labour to help me prepare the land and harvest the maize", says Zohrah. With access to good inputs, and new knowledge on planting and post-harvest techniques from the suppliers and research partners involved in the program, Zohrah experienced a 141% increase in this season's yield. "It has not been a good year because of delayed rains but I still harvested 7 tonnes", says Zohrah. "I made a profit of Rp.14,361,000 (\$1,436), after paying back the loan and my previous debt to the money lender". For Zohrah this is the first time she has seen any light at the end of the tunnel. "I may not be in a position yet to save much money", says Zohrah, "But I feel that my family now at least has a future".

SAFIRA Strengthening Agricultural Finance in Rural Areas

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