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Determinant of Households Access to Credit in Rural Areas of Central Sulawesi Province Indonesia

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Abstract

Credit plays the important role in the development of agriculture, particularly in rural areas. It can be seen from the capitalisation of money that farmers borrow to undertake a new investment and adoption of technology. Moreover it can be used for smoothing consumption by providing working capital and reducing poverty as well.

The problems arise as many studies showed that not all the rural society have opportunity to get financed, either from formal or informal credit institution. In rural areas of Central Sulawesi Province the percentage of households who have access to credit up to 51 percent, which financed by formal loan only 15 percent whereas large share borrow from informal sources. In general, loans borrowed from both institutions are rarely used for finance agricultural activities. The poorest use the borrowed loans for food and consumption activities account for 60 percent meanwhile only one percent for agricultural activities. For the less poor households, borrowed loans are used for either for food and consumption or agricultural activities, 34% and 31,% respectively.

Those findings prove two important questions: 1) why do rural households have different access to credit? and 2) why is informal credit more attractive for the rural households although the formal institutions exist in every sub district (kecamatan)?

Therefore accurate assessment of determinant households access to credit is important in order to understand the circumstances. By using econometric model the determinant of households access to credit both of formal and informal credit institutions will be analysed.

Data was collected in 2000 and 2001 through standardised, of formal questionnaires from 301 randomly selected households out of 12 villages in rural Central Sulawesi, particularly in the vicinity of the Lore Lindu National Park. This study is part of the Collaborative Research Centre 552 “Stability of Rain Forest Margins”.

Keywords: Rural households, Indonesia, access to credit, regression analysis