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Farmer Financial Literacy and Credit Accessibility: an Empirical Analysis of Government Credit Programme in Different Agro-ecological Zone

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Abstract

Capital is one of the important production factors for both farming and non-farming. The availability of capital is a key factor for success and sustainability of the farming system itself. Farming is in dire need of capital in line with the increasing need for inputs such as fertilisers, pesticides, seeds, land rent, and labour wages. In addition to input production farming, capital also needed to adopt the latest technology that cost is relatively expensive. One factor that is believed to be the cause of difficulties in access to capital by small farms is because the microfinance's products are not well known by farming. The communities should have sufficient financial literacy to be able to manage their financial resources well and to improve their welfare. In developing countries such as Indonesia, the financial literacy index of the people tends to be low, especially the people in rural areas with the main job as farmers. Government programs such as subsidised credits often cannot run well due to inadequate financial literacy. This study aims (1) to determine the level of financial literacy of farmers, (2) to analyse the factors affecting the financial literacy of farmers, (3) to analyse the factors that influence the accessibility of subsidised microcredit, and (4) to analyse the empirical evidence by comparing the influence of farming sites, in lowland and upland areas, to the level of farmers' financial literacy and accessibility of subsidised credits. The method used in this research is multiple regression analysis and logistic regression. The results showed that the level of financial literacy of farmers at a moderate level. Factors affecting the financial literacy of farmers include age, education duration, annual income, financial education, account ownership, and farm location. Factors affecting the accessibility of subsidised credit include collateral, interest rate, distance to credit source, farmer group activity, financial literacy index, credit access experience, and farm location. The location of farming has a significant effect on financial literacy and accessibility of subsidised credit. Highland farms tend to have lower financial literacy but have a high degree of accessibility to subsidised credit.

Keywords: Farm site, financial literacy, keywords: agro-ecological zone, micro-credit accessibility, subsidised credit