



Effectiveness Financing in Agriculture Sector: A Comparative Study between Conventional and Islamic Bank

Inten Meutia^{1*}, Mohamad Adam²

¹Department of Accounting, University Sriwijaya, Faculty of Economics, Indonesia. ²Department of Management, Faculty of Economics, University Sriwijaya, Indonesia. *Email: inten.26@gmail.com

Revised: 12 October 2018

Accepted: 20 December 2018

DOI: <https://doi.org/10.32479/ijefi.7403>

ABSTRACT

This study aims to identify the effectiveness of financing provided by conventional and Islamic banks to micro small medium enterprises in the agricultural sector in South Sumatra. The study uses multiple linear regressions to identify the effect of financing on productivity. Musi Banyuasin Regency was chosen as a research location because based on data from Bank Indonesia 2016 is the district that has the largest loan for agricultural/plantation SME sector in South Sumatera. A total of 128 farmers were sampled in this study. Research respondents are farmers who have been or are getting loans either from conventional banks or from Islamic banks. This study found that neither simultaneous nor partial types of banks and loan amounts were not proven to significantly affect productivity. These findings indicate that the behavior of Islamic and conventional banks in disbursing loans to the agricultural sector is no different.

Keywords: Agricultural Financing, Islamic Bank, Conventional Bank

JEL Classifications: G21, Q14, O13

1. INTRODUCTION

Recently the financial services authority (OJK) in Indonesia launched the “Food ACTION Program” which is a policy synergy effort to accelerate financial inclusion to support Nawa Cita Program to realize food sovereignty. AKSI Food Program which is an acronym of Acceleration, Synergy and Financial Inclusion in the field of food became part of the follow-up “Program of Synergy Action for the Economy of the People” launched by the President of the Republic of Indonesia in Brebes Central Java in April 2016 and part of the implementation of the National Strategy of Inclusive Finance (SNKI) which was also launched by the President of the Republic of Indonesia in November 2016. OJK hopes the AKSI Food Program to become a national movement in introducing and implementing the value chain financing scheme that is expected to be the momentum of accelerating access to finance in the food sector (OJK, 2017).

The importance of the role of the banking industry as an intermediary institution in the economy that channeled public

funds to productive asset investments that have an impact on the productivity of the real sector, the accumulation of capital, and the growth of aggregate outputs have been put forward by (Bencivenga and Smith, 1991) and (Hung and Cothren 2002).

Credit or financing has many benefits for the agricultural sector. As stated by (Ridhwan, 2013) the main purpose of using financing from banks is to obtain working capital to start new or expand existing farms. Financing in the agricultural sector has a large role to play in increasing economic activity by producing agricultural goods and services using local resources.

However, according to (Aziz and Yusoff, 2014) agriculture is a very risky economic activity. In the agricultural sector there are some uncontrollable things that cause unexpected results for farmers. Farmers, especially in developing countries, have limited access to local risk management instruments and bank financing facilities that force them to use inefficient traditional methods. Local farmers living in villages or other remote areas

2. LITERATURE REVIEW

lack access to reliable and affordable agricultural financing due to low education, and inability to access financing instruments. This is evidenced by Data Bank Indonesia, which shows that the average growth of credits in the agricultural sector of food crops and plantations in Indonesia in 2011-2015 only reached 13.84%. The growth rate is relatively low compared to other sectors (Ministry of Agriculture, 2016).

In addition, when viewed from the contribution of credit, credit to the agricultural and forestry sectors is still relatively small. In August 2015 the portion of credit distribution to agriculture and forestry sector was only 231.4 trillion or 5.96% of total loans (OJK, 2015). While in April 2016, the amount of financing or credit of national banking (to the agricultural sector) was recorded at Rp 257.8 trillion or 6.4% of total national banking credit of Rp4,003.1 trillion. Despite an increase from the previous year but the increase was not very significant, it only increased by 0.15-0.45%. The amount of credit distribution is still very necessary to be improved. Meanwhile, the government through Bank Indonesia Regulation (PBI) no. 17/12/PBI/2015 dated June 25, 2015 on Amendment to Bank Indonesia Regulation no. 14/22/PBI/2012, and PBI no. 14/22/PBI/2012 concerning the Provision of Credit or Financing by Commercial Banks and Technical Assistance for the Development of Small and Medium Enterprises, together with supporting provisions, requires banks to allocate credit/financing to SMEs, gradually starting from 5% 2015 to reach 20% by the end of 2018.

The classical issue of financing and business development is still attached to SMEs. The government noted, in 2014, of the 56.4 million MSMEs in Indonesia, only 30% are able to access financing. From that percentage, 76.1% get credit from banks and 23.9% access from non-banks including savings and loans such as cooperatives. In other words, around 60-70% of all MSME sectors do not yet have access to financing through banking (LPPI and BI 2015).

Nevertheless Micro, Small and Medium Enterprises have an important role in the economy in Indonesia. SMEs have a proportion of 99.99% of the total entrepreneurs in Indonesia, accounting for 60% of GDP. Even the Agriculture, Livestock, Forestry and Fishery Sector give the biggest contribution to GDP (48.85%) compared to other sectors.

BPS data show that the agriculture, hunting and forestry Sector contributes relatively large share of Indonesia's aggregate GDP, although its share tends to decline. By the end of 2010 the agricultural sector has a 12.1% share in GDP but has declined to only 10.9% by 2014 (OJK, 2015). On the other hand this decline was also followed by a decrease in credit distribution in the agricultural sector.

This study will evaluate the financing provided by both conventional and Islamic Banks in South Sumatera and assess the effectiveness of financing for farmers. This study will identify the effect of financing provided by both conventional and Islamic banks to Micro Small Medium Enterprises in the agricultural sector. Effectiveness will be analyzed based on increased productivity of the crop before and after obtaining the loan.

Hartarska et al. (2015) argue that the theory that shows the importance of the relationship between credit and growth in the economic sector begins with (Schumpeter, 1911) which says that entrepreneurs need credit to finance the adoption of new technologies. The Bank is a key agent in facilitating capital flows and at the same time promoting economic growth. The literature on the bank-based financial system also offers insight into the mechanism by which lending/credit in the agricultural sector will tend to influence rural economic development.

In bank-based systems, firms prefer financing from banks to other financial markets (Allen and Gale, 1999; Allen and Gale, 2000; Beck and Levine, 2004; Ergungor, 2004; Levine, 2005). Banks tend to provide long-term loans because they can more intense monitoring of owners and rarely change ownership, the same characteristics as in the agricultural sector.

Empirically, the causal relationship between the developments of banking sector to economic growth has been shown by previous research. For analysis at the state level (King and Levine, 1993) provides support to the positive impact of bank credit on per capita income growth, both in developed and developing countries. Separately (Athanasios and Antonios, 2012) in his study showed that credit recipients tend to increase income.

Other empirical studies analyze the impact of bank lending on economic growth, where credit is grouped into corporate credit and household credit. Beck et al. (2014) show that only working capital loans have a positive impact on economic growth in various countries.

Other studies conducted by (Akwa-seyi, 2013) investigated the effect of microcredit on agricultural activities in Ghana particularly on workers, working capital output and farmer income. The results of the study found that there was a significant increase in the four variables after crediting in the agricultural sector.

Hartarska et al. (2015) evaluated the relationship between credit by major borrowers in commercial villages and farmer credit systems (FCS) and economic growth for the period 1991-2010. Their findings indicate that loans provided by commercial banks and credit system institutions farmers are associated with higher GDP growth rates in the agricultural sector. They concluded that their findings suggesting a positive relationship between credit and economic growth in rural areas were caused by loans from commercial banks and FCS institutions.

In addition to research that attempts to analyze lending by conventional banks in the agricultural sector, several studies have also tried to analyze the role of Islamic banks in providing financing in the agricultural sector.

Ridhwan (2013) aims to propose a financing mechanism for Muslim entrepreneurs in financing their agrarian projects through shari'a compliant instruments in Islamic banks under the contract of Fiqh Muamalah. Using a qualitative approach, this study found

that there is a need for shari'a compliant financing to finance a farming project in an Islamic bank derived from a contract in Fiqh Muamalah.

Further Shafai and Moi (2015) found that Islamic financing mode applications in the agricultural sector through financial institutions can be very effective in providing financing to ensure that the partnership process works effectively and efficiently. There is an urgent need to develop a financing system for the agricultural sector under an Islamic contract to increase and sustain the income of farmers and landowners and reduce poverty.

Saqib et al. (2015) examines Qardhul Hasan to see the possible applications for the agricultural sector with a view to adding a source of cost-free agricultural financing to Muslim farmers in Pakistan. His findings reported that riba-free financing is urgently needed by farmers who because of their usury prohibition do not use riba-based financing. This study also shows that Qardhul Hasan is a viable option to meet the needs and benefits to farmers and Islamic banks.

Further Hassan et al. (2012) found a significant relationship between Islamic banking and the agricultural sector. There is no doubt that acceptance of Islamic banking is high but still needs some improvement. According to (Hassan et.al , 2012) banks should adopt effective marketing techniques to make farmers more interested in Islamic banks. This is because the majority of farmers live in rural areas and are poorly educated so that knowledge about products and services offered by Islamic banking is little known. Banks should adopt easy-to-understand procedures and terminology to improve financing for farmers.

Previous studies have tried to analyze the extent of benefits from credit or financing provided in the agricultural sector. However, no one has analyzed the two types of banks simultaneously or compared the effectiveness of the financing provided by the two types of banks in the agricultural sector. This study will evaluate the financing provided by both types of banks by analyzing the effectiveness of the financing provided.

3. DATA, METHODOLOGY AND ANALYSIS

3.1. The Data and the Methodology

This study focuses on farmers' customers as recipients of loans from both conventional banks and Islamic banks. This research uses quantitative and qualitative approach in analyzing data. Primary data used in this research are:

- i. Data on financing benefits from farmers side the rate of income from aforementioned fields to total income shall be lower than 5%.
- ii. Data on increasing agricultural production derived from financing received by farmers.

Primary data were collected through structured interview techniques to farmers receiving credit/financing. As supporting data, there are also in-depth interviews to some informants to explore the problem. The research is located in Musi Banyuasin district. Musi Banyuasin district was chosen as a research location because based on data

from Bank Indonesia 2016 is a district that has a loan for the largest agricultural/plantation SME sector in South Sumatra.

3.2. Population and Sample

The research population is the customer in the agricultural sector who have been or are receiving financing either from conventional bank or Islamic Bank. The sample was chosen by using random sampling. Since the number of farmers who receive financing is not known correctly, the sample determination will be used with the snowball technique. Based on this sampling technique obtained 128 respondents of farmers customers.

3.3. Data Analysis

Data analysis is done both quantitatively and qualitatively. Quantitative analysis is needed to identify the effect of the amount of financing given to the productivity to know effectiveness of financing given. While qualitative analysis is needed to find out in depth the mechanism and problems faced by farmers regarding the process of obtaining financing. Multiple linear regression will be used to see the effect of financing on productivity.

$$Y = a + bX_1 + cX_2 + e$$

$$Y = \text{Produktifity}$$

$$X_1 = \text{Credit/financing}$$

$$X_2 = \text{Bank}$$

$$a = \text{Constanta}$$

$$b = \text{Coefficient.}$$

Productivity is measured by increasing yields before and after obtaining financing. Financing is measured by the amount of financing received. Types of Banks are conventional and Islamic banks.

4. RESULTS AND DISCUSSION

4.1. Descriptive Research Respondents

The following data in Table 1 illustrates the characteristics of the respondents of the borrowing farmer's customers. Out of 128 respondents, 98 (78.9%) of the customers are conventional bank customers, while 30 respondents (21.1%) come from Islamic banks.

The low number of Islamic Bank customers found to be the respondents of this study illustrates the small marketshare of Islamic Banks in Indonesia which until now only reached 5.3% in 2017 (Financial Services Authority, 2016). So it is quite difficult to find the respondents of farmers customers from Islamic banks.

4.2. Loan Data

The following data in Table 2 describes matters relating to loans received from the bank.

Based on the Table 2 it can be seen that from 98 respondents of conventional banks, as much as 54.1% owns oil palm plantation

business, as much as 22.4% of rubber plantations, as much as 19.4% rubber and palm plantations, and the rest of 4.1% in other businesses than rubber and oil palm plantations. While from 30 respondents of Islamic banks, as much as 80% undergoing oil palm plantation, 10% rubber plantation, and 10% rubber and oil palm plantation.

Based on the Table 3 can be seen that of 98 people total conventional bank customers, as much as 100% of customers provide collateral to the Bank. Likewise with Islamic bank customer respondents, all customers provide collateral to the Bank.

The Table 4 shows that out of 98 people the total of conventional bank respondents, as many as 89.8% provide collateral in the form of land certificate, as much as 4.1% provide collateral in the form of house certificate, as much as 3.1% provide collateral in the form of civil servant decree, and the rest of 3.1% provide other collateral. While from 30 total respondents of Islamic banks, obtained data as much as 93.3% to provide collateral in the form of land certificate, as much as 3.3% provide collateral in the form of house certificate, no respondents who provide collateral in the form of civil servant decree, and 3.3% provide other collateral. Other collateral provided by the farmer's customer is a certificate of land owned by another person borrowed for mortgage. In-depth understanding of this matter reveals that the customer gives a certain amount of money to the land owner as a token of remuneration. This is allowed by the bank as long as there is a statement of willingness from the land owner to make the land as collateral.

Based on the Table 5 it can be seen that out of 98 people total conventional bank respondents, as much as 40.8% borrowed more than Rp 50,000,000, 36.7% borrowed funds between Rp 25,000,000 to Rp 50,000,000, and the remaining 22.4% borrowed funds less than Rp 25,000,000. While from 30 total respondents of Islamic

Table 1: Respondents by type of bank

Type of Bank	Total (%)
Conventional Bank	98 (76.5)
Islamic bank	30 (23.5)
Total	128 (100)

Source: Data processed

Table 2: Type of business

Type of business	Bank (%)	
	Conventional	Islamic
Rubber	22 (22.4)	3 (10.0)
Palm	53 (54.1)	24 (80.0)
Rubber and Palm	19 (19.4)	3 (10.0)
Others	4 (4.1)	0 (0.0)
Total	98 (100)	30 (100.0)

Source: Data processed

Table 3: Collateral request by bank

Collateral	Bank (%)	
	Conventional	Islamic
Yes	98 (100)	30 (100)
No	0 (0)	0 (0)
Total	98 (100.0)	30 (100.0)

Source: Data processed

banks, data obtained as much as 40.0% borrowed more than Rp 50,000,000, 56.7% borrowed funds between Rp 25,000,000 and Rp 50,000,000, and the remaining 3.3% borrowed funds of less than Rp 25,000. Associated with data on the provision of collateral, it appears that regardless of loan amount including loan amount below Rp. 25,000,000 is required to provide collateral to the bank both in conventional bank and in Islamic Bank. The data in the table above also shows that conventional bank customers who borrowed below Rp 25,000,000 more than in Islamic banks. While customers in Islamic banks more borrowed between 25 million and 50 million.

Furthermore Table 6 and 7 try to analyze the purpose of the loan based on the type of bank. In conventional banks, the largest loan objective is to invest (48%). While in Islamic Banks, the most loan is in addition to investment (40%), also for working capital and investment (30%).

The data in the Table 8 shows that of 98 respondents in conventional banks, 55.1% of respondents said that the length of disbursement of loan funds for 1-7 days. 23.5% stated for 8-15 days, while the rest (21.4%) for more than 15 days. While from 30 respondents of Islamic banks, obtained data of 66.7% of respondents said that the length of disbursement of loan funds for 1-7 days. by 16.7% for 8-15 days, while the remaining 16.7% for more than 15 days. It can be said that most of the old disbursements in both conventional and Islamic banks are in the range of 1 week.

From Table 9 can be seen that of 98 respondents conventional banks, as many as 65.3% claimed not to know the interest rate, the

Table 4: Types of collateral

Types of collateral	Bank (%)	
	Conventional	Islamic
Land certificate	88 (89.8)	28 (93.3)
House certificate	4 (4.1)	1 (3.3)
SK PNS	3 (3.1)	0 (0.0)
Others	3 (3.1)	1 (3.3)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 5: Loan amount

Amount	Bank (%)	
	Conventional	Islamic
25,000,000	22 (22.4)	1 (3.3)
25,000,000-50,000,000	36 (36.7)	17 (56.7)
>50,000,000	40 (40.8)	12 (40.0)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 6: Loan objectives

Loan objectives	Frequency (%)
Working capital	31 (24.2)
Investment	59 (46.1)
Others	4 (3.1)
Working capital and investment	25 (19.5)
Working capital and others	4 (3.1)
Investment and others	5 (3.9)
Total	128 (100.0)

Source: Data processed

rest of 34.7% know. While from 30 respondents of Islamic banks, 60% claimed to know the amount of margin, the remaining 40% did not know the big margin. Judging from the knowledge of the interest rate or margin of more Islamic bank customers who know the amount of margin compared with conventional bank customers who know the amount of interest to be paid. This indicates that Islamic banks may be more transparent in notifying the amount of margin to be paid to their customers.

Table 10 shows that of 98 respondents of conventional banks, 35.4% of respondents pay interest of 4.8-7% per annum, as many as 14.7% pay interest of 7.1-9% per year, as many as 35.3.7% pay interest of 9.1-12% per year, and the remaining 14.7% pay interest more than 12% per annum. From 30 Islamic bank respondents, 66.7% paid margin more than 12% per year, 33.3% of respondents paid margin of 9.1-12% per year, and no respondents paid margin <9.1% per year.

Based on the above data can be explained that margin in Islamic banks is higher than interest in conventional banks. Because of all the farmer customers who are the respondents of this study no one pays margin below 9.1% per year. This indicates that what some researchers (Ibrahim, 2015) and (Anuar et al., 2014) have pointed out that the margin of Islamic banks is higher than conventional interest seems to be true. However, this is also possible because conventional banks are banks of KUR where KUR interest is limited to no more than 9% because there are government subsidies.

The data in the Table 11 shows that customers in Islamic Banks are more likely to borrow with repayment periods longer than 36 months or 3 years compared with conventional banks. While

loans with a shorter term of <24 months are more common in conventional banks. This indicates that for long-term loan customers are more likely to Islamic banks, while for short-term loans customers tend to choose conventional banks.

Table 12 shows that from 98 respondents of conventional banks, as much as 43.9% paying installments less than Rp 2,000,000, 40.8% paid installments between Rp 2,000,000 to Rp 4,000,000, and the remaining 15.3% 4.000.000. While from 30 respondents of syariah bank, 43.3% get paid installment less than Rp 2.000.000, 43.3% pay installment between Rp 2,000,000 to Rp 4.000.000, and the rest 13.3% pay installment more than Rp 4,000,000. This finding is consistent with the findings in the previous table showing that Islamic bank customers use longer loan time, so the installments to be paid also become smaller.

4.3. Loan Effectiveness Analysis

King and Levine (1993) state that there is a relationship between lending and economic growth in a country. Based on this case, this research tries to see how the relation between crediting/financing in agricultural sector with productivity in agriculture sector. The Table 13 shows the increase of crops yield by type of bank.

Of the 98 farmers who borrowed in a conventional bank 52% claimed to have increased yields as a result of the loan. 8.2% confessed that their crops declined, while 11.2% admitted their crops remained. 28.6% admitted there has been no increase in yields. Those who stated that their crops did not increase because the borrowed funds were used to buy the garden or land so that at the time of the interview the land was not yet produced. While for customers who borrow at Islamic banks 56.7% stated that the

Table 7: Objectives of loans by type of bank

Objectives of loan	Customers		Total (%)
	Conventional (%)	Islamic (%)	
Working capital	25 (25.5)	6 (20.0)	31 (24.2)
Investment	47 (48.0)	12 (40.0)	59 (46.1)
Others	3 (3.1)	1 (3.3)	4 (3.1)
WC and investment	16 (16.3)	9 (30.0)	25 (19.5)
WC and others	4 (4.1)	0 (0.0)	4 (3.1)
Investment and others	3 (3.1)	2 (6.7)	5 (3.9)
Total	98 (100.0)	30 (100.0)	128 (100.0)

Source: Data processed

Table 8: Length of loan disbursement

Length of loan disbursement	Bank (%)	
	Conventional	Islamic
1-7 days	54 (55.1)	20 (66.7)
8-15 days	23 (23.5)	5 (16.7)
>15	21 (21.4)	5 (16.7)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 9: Knowledge of interest/margin

Knowledge	Bank (%)	
	Conventional	Islamic
Yes	34 (34.7)	18 (60.0)
No	64 (65.3)	12 (40.0)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 10: Interest rate/margin

Interest rate/margin (%)	Bank (%)	
	Conventional	Islamic
4.8-7	35 (35.3)	0 (0.0)
7.1-9	14 (14.7)	0 (0.0)
9.1-12	35 (35.3)	10 (33.3)
>12	14 (14.7)	20 (66.7)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 11: Length of loan

Length of loan	Bank (%)	
	Conventional	Islamic
24 months	24 (24.5)	2 (6.7)
25-36 months	68 (69.4)	16 (53.3)
> 36 months	6 (6.1)	12 (40.0)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 12: Monthly installments

Installments	Bank (%)	
	Conventional	Islamic
<2,000,000	43 (43.9)	13 (43.3)
2,000,000-4,000,000	40 (40.8)	13 (43.3)
>4,000,000	15 (15.3)	4 (13.3)
Total	98 (100.0)	30 (100.0)

Source: Data processed

crop has increased. Only 10% of customers stated that the yield is fixed and 33.3% stated that it has not yet produced. No one claimed that his crops had decreased.

The data above shows that more than 50% of customers from both conventional and Islamic banks claim that loans help improve crop yields. Although the percentage rate in Islamic banks is higher, ie 56.7%. However, this indicates that the usefulness of loans provided by both conventional and Islamic banks is considered high enough to increase the yield of farmers' customers. Another interesting point is attributed to higher margins in Islamic Banks compared to conventional banks, but with higher margin conditions, farmers can increase their yields. If the margin of Islamic Bank can be lower or equal to the interest in conventional bank then there is a chance that the harvest will be higher so that it can further improve the welfare of the customers of the farmers.

Further analysis through in-depth interviews of customers whose crops did not increase or decrease (19.4% in conventional banks and 10% in Islamic Banks) indicated that this occurred because the use of loans did not match the allocation of loans. This figure is higher in conventional banks, which indicates that the controls performed by conventional banks on the use of loans are not as tight as in Islamic banks. This has resulted in the use of loans to finance things beyond the need to manage agricultural land.

In addition to analyzing the increase in yields before and after obtaining a loan, this study also analyzes the details of the profit earned by the customer. It is necessary to know whether there is an increase in the welfare of farmers in the form of net profit. Because the harvest could increase but the obligations to be paid by farmers also become a burden that incriminates farmers. Larger liabilities may arise as a result of high interest expense or margin to be paid by the customer. If this happens, then it is feared that the loan has not provided optimal benefits for customers.

In terms of net profit earned from crops, 42.9% of 98 farmers' customers in conventional banks said their profits grew, while in Islamic banks the proportion of profits grew by 36.7%. Customers who claim that their profits decreased in conventional banks by 13.3% the same as in Islamic banks 13.3%. Furthermore from 98 respondents in conventional banks 13.3% stated the profit remains. As for the 30 customers in Islamic banks who stated that the profit remains only 10% (Table 14).

The data above shows that from 52% of respondents in conventional banks who previously said there is an increase in yields, it turns out that then answered there was an increase in profits only 42.9%. While 56.7% of respondents in Islamic banks that previously responded to increased yields, only 36.7% said there was an increase in profits. These findings indicate that the burden to be paid by customers in Islamic banks is higher than in conventional banks. Another possible indication is that margin in Islamic banks is higher than the interest payable in conventional banks so that the repayments to be paid by farmers' customers are higher. However, further research is needed in this respect.

4.4. Analysis of Lending Effect on Crops Increasing

The following analysis seeks to provide statistical evidence regarding the effect of bank lending (conventional and islamic) on increasing yields obtained by customers.

The test results in Table 15 show that the influence of independent variables (amount of borrowed funds and types of banks) to the dependent variable (yield increase) in this study only 0.018. The rest is more influenced by other factors.

The significance value is 0.315 (Table 16). This shows that simultaneously the independent variables (the amount of borrowed funds and the type of bank) do not significantly influence the dependent variable (increase in yield).

Table 17 shows that partially the two independent variables (the amount of funds borrowed and the type of bank) did not significantly affect the increase of farmers harvest. These findings indicate that the amount of funds borrowed and the type of bank whether a conventional bank or Islamic does not give a big influence on the increase of farmers harvest. This indicates that the role of Islamic Banks is not much different from that of conventional banks with regard to efforts to advance the

Table 13: Increased crop yield by bank type

Crop yield	Bank (%)	
	Conventional	Islamic
Decrease	8 (8.2)	0 (0.0)
Stabil	11 (11.2)	3 (10.0)
Increase	51 (52.0)	17 (56.7)
Not yet produces	28 (28.6)	10 (33.3)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 14: Change of profit

Profit change	Bank (%)	
	Conventional	Islamic
Decrease	13 (13.3)	4 (13.3)
Stabil	13 (13.3)	3 (10.0)
Increase	42 (42.9)	11 (36.7)
Not yet produces	30 (30.6)	12 (40.0)
Total	98 (100.0)	30 (100.0)

Source: Data processed

Table 15: Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.135 ^a	0.018	0.003	0.80980

^aPredictors: (Constant), customer, loan amount

Table 16: ANOVA

Model	Sum of squares	df	Mean square	F	Sig.
1					
Regression	1.528	2	0.764	1.165	0.315 ^b
Residual	81.972	125	0.656		
Total	83.500	127			

^aDependent variable: Crops increasing, ^bPredictors: (Constant), customer, loan amount

Table 17: Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. error	Beta		
1					
Constant	2.932	0.131		22.369	0.000
Loan amount	1.157E-9	0.000	0.068	0.766	0.445
Customer	0.221	0.169	0.116	1.310	0.193

*Dependent variable: Crops increasing

agricultural sector. This finding is inconsistent with what found (Borhan and Aziz, 2010) stating that there is a lending effect on increasing production in the agricultural sector in Malaysia.

Another point indicated by this finding is that although there is a significant increase in crop yields as well as the benefits of large farmers, this is not evidence of the success of the loans provided by banks. Other factors are likely to affect productivity in the agricultural sector.

Nevertheless, at least this research contributes in providing an overview of customer loan pattern, length of disbursement process, loan amount required by customer and length of loan. The length of the loan for example depends on the customer's ability to pay off and this is closely related to the yield obtained. In this case it is related to the harvest that may be expected by farmers to be used as loan repayment to the bank. Data on such matters are expected to contribute beneficial to lending to the agricultural sector, so that the financing provided can help improve the farmers' prosperity.

5. CONCLUSION

This study aims to identify the effect of financing provided by both conventional and Islamic banks in micro small medium enterprises in the agricultural sector. The main purpose of this study is to analyze the effectiveness of financing given to MSMEs in the agricultural sector. Effectiveness will be seen based on increased productivity of crops before and after getting a loan. Based on the results of the analysis can be drawn some conclusions with regard to research problems.

- The types of banks and loan amounts are not proven to affect the increase of agricultural production. This indicates that the behavior of Islamic and conventional banks is no different in lending to the agricultural sector.
- For loans fewer than 25 million farmers use more loans from conventional banks, while for loans ranging from 25 million to 50 million more farmers borrowers from Islamic Banks.
- Customer's knowledge about the interest rate/margin to be paid higher to the customers of Islamic banks compared with conventional bank. This indicates that there is higher transparency in Islamic banks than conventional banks.
- The margin level in Islamic Banks is generally higher than the interest rate in conventional banks. But this is possible because at the research location there is a conventional bank that distributes People's Business Loan (KUR) with 9% interest, because the government subsidizes it.

The findings of this study provide several implications both theoretically and practically. Theoretically these findings provide

new evidence supporting the findings of previous researchers who say that in many aspects the behavior of Islamic Banks is no different from conventional banks. In particular the contribution of Islamic and conventional banking to the agricultural sector, which is expected to improve the welfare of farmers, is not much different.

With regard to policy, the findings of this study provide an overview of loan patterns and loan utilization for farmers. More serious attention is needed to the interest rate/margin given to the farmers' customers considering that this sector has different characteristics from other sectors. The high risks and the time required to produce should be a consideration for the bank to provide a lower interest rate/margin especially for Islamic Banks.

With a margin rate that can match the interest rate in a conventional bank, there is a possibility that the productivity of farmers will be higher. This is evidenced by the finding that with a margin higher than the interest rate, the productivity of customers in Islamic banks can still compete with customers in conventional banks. So this could be a good opportunity for Islamic banks to increase the contribution for the agricultural sector.

This study has several limitations, including the number of respondents especially customers of Islamic banks are limited. No significant influence on the test performed is likely due to the small number of Islamic bank customer samples. Subsequent research can be done by increasing the number of respondents, especially respondents of Islamic banks. Subsequent research may also attempt to include other variables that may affect productivity.

REFERENCES

- Akwaa-sekyi, E.K. (2013), Impact of micro credit on rural farming activities : The case of farming communities within Sunyani area. *Economic Journal*, 7(4), 23-29.
- Allen, F., Gale, D. (1999), Diversity of opinion and financing of new technologies. *Journal of Financial Intermediation*, 8(1), 68-89.
- Allen, F., Gale, D. (2000), Bubbles and crises. *Economic Journal*, 110(460), 236-255.
- Anuar, K., Mohamad, S., Shah, M.E. (2014), Are deposit and investment accounts in Islamic banks in Malaysia interest-free ? The perception that there is no real difference between Islamic banking (IB) and conventional banking (CB) in terms of their intermediation. *Islamic Econ*, 27(2), 29-58.
- Athanasios, V., Antonios, A. (2012), Stock market development and economic growth an empirical analysis for Greece. *American Journal of Economics and Business Administration*, 4(2), 135-143.
- Aziz, M.R.A., Yusoff, M.M. (2014), Identifying risk of financing for agro projects in Islamic banks. *International Journal of Technical Research and Applications*, 2(4), 29-33.
- Beck, T., Buyukkarabacak, B., Rioja, F.K., Valev, N.T. (2014), Who gets the credit? And does it matter? Household vs. firm lending across countries. *B.E. Journal of Macroeconomics*, 12(1), 1-10.
- Beck, T., Levine, R. (2004), Stock markets, banks, and growth: Panel evidence. *Journal of Banking and Finance*, 28(3), 423-442.
- Bencivenga, V., Smith, B. (1991), Financial intermediation and endogenous growth. *The Review of Economic Studies*, 58(2), 195-209.
- Borhan, J., Aziz, M. (2010), Agribusiness and financing facility in Islam: From the perspective of agro bank, Malaysia. *Journal of Islamic*

- Economics, Banking, 6, 9-28.
- Ergungor, O.E. (2004), Market- vs. Bank-based financial systems: Do rights and regulations really matter? *Journal of Banking and Finance*, 28(12), 2869-2887.
- Hartarska, V., Nadolnyak, D., Shen, X. (2015), Agricultural credit and economic growth in rural areas. *Agricultural Finance Review*, 75(3), 302-312.
- Hassan, M.T., Sattar, M.A., Tousif, M.A., Nasir, N., Sadiq, M., Yasmeen, M. (2012), Role of Islamic banking in agriculture development in Bahawalpur, Pakistan. *International Journal of Learning and Development*, 2(3), 123-138.
- Hung, F.S., Cothren, R. (2002), Credit market development and economic growth. *Journal of Economics and Business*, 54(2), 219-237.
- Ibrahim, M.H. (2015), Issues in Islamic banking and finance: Islamic banks, Shari'ah-compliant investment and Sukuk. *Pacific-Basin Finance Journal*, 34, 185-191.
- King, R., Levine, R. (1993), Finance and growth schumpeter might be right. *The Quarterly Journal of Economics*, 108(3), 717-737.
- Levine, R. (2005), Finance and growth: Theory and evidence. In: *Handbook of Economic Growth*. Ch. 12. Amsterdam: Elsevier. p865-934.
- LPPI, BI. (2015), *Profil Bisnis Usaha Mikro, Kecil dan Menengah (umkm)*. Jakarta: LPPI, BI.
- OJK. (2015), *Potensi Pertumbuhan Ekonomi ditinjau dari Penyaluran Kredit Perbankan Kepada Sektor Prioritas Ekonomi Pemerintah*. Jakarta: OJK.
- OJK. (2016), *Statistik Perbankan Syariah 2016*. Jakarta: OJK.
- OJK. (2017), *Statistik Perbankan Syariah*. Jakarta: OJK
- Ridhwan, M. (2013), A Review of Islamic Banking Products Offered by Agro Bank between 2008 and 2012. *Journal of Emerging Issues in Economics, Finance and Banking*, 4, 243-259.
- Saqib, L., Zafar, M.A., Khan, K., Roberts, K.W., Zafar, A.M. (2015), Local agricultural financing and Islamic banks: Is Qard-al-Hassan a possible solution? *Journal of Islamic Accounting and Business Research*, 6(1), 122-147.
- Schumpeter, J.A. (1911), *The Theory of Economic Development*. Cambridge: Harvard University Press.
- Shafiai, M.H.M., Moi, M.R. (2015), Fitting Islamic financial contracts in developing agricultural land. *Global Journal Al Thaqafah*, 5(1), 43-49.