

Financing Models for Sago Cake Makers in Supporting the Acceleration of Family Economic Improvement

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Abstract

This study was aimed to: (1) To analyze the existing financing pattern. (2) To extract the perceptions of the sago cake makers towards conventional and sharia banking; (3) To extract the perceptions of sago cake makers towards their expected financing; and (4) To formulate the appropriate financing model. The research was done by conducting a survey using descriptive method. The purposive sampling was used and the data was collected through in depth interview and Focus Groups Discussion. The research findings are as follows: (1) The financing pattern being practiced is a financing pattern using fund that comes from own capital, loan shark, and others (relatives, neighbors), regular social gathering and cooperative; (2) The perceptions of the sago cake makers towards conventional and sharia banking is that the interest is against religious doctrine, but it is not the main consideration in selecting the type of bank; (3) The perceptions of the sago cake makers towards expected financing is that they expect the financing/credit collateral which is not in the form of land and building certificate but in the form of other moveable objects, the credit is provided in the form of cash money, short term period of credit with credit interest rate of 12 per cent per annum; and (4) The appropriate financing model is the financing model that has banking financing access through companion appointed by the Kepulauan Meranti Department of Industry and Trade and Cooperatives and SMEs.

Keywords: financing model, sago cake, companion

1. Introduction

Sago is a quite important source of carbohydrate in Indonesia and ranked number four after cassava, corn and potato. One of the main areas of sago producers in Indonesia is located in Riau Province, precisely Kepulauan Meranti Regency, with the area of 45.000 ha (Baliitpalma, 2013). However, sago is not yet able to give more benefits to the farmers. To this end, the majority of farmers are still producing sago in the form of raw material, not yet in finished sago based products. The sago farmers in Kepulauan Meranti Regency can produce at least 13 thousands wet sago per month (BPS, 2012). Then it is sent to Cirebon in the form of raw material not in the form of finished food products; consequently, the sago farmers have not maximally enjoyed the benefits.

Basically, sago can be processed into various processed foods which can provide benefits such as bangkit cake, kembang goyang, biscuits, amplang, cendol, rendang sago, mutiara, and so on (Janes and Arivin, 2011). So far, in Kepulauan Meranti Regency, sago is processed in a small scale (home industry) by the housewives with inadequate funding so that the processed sago output produced is still limited in its variety, quantity, and marketing. In fact, based on a preliminary survey, it was discovered that sago cakes were widely demanded by the people who visited Kepulauan Meranti Regency, particularly those who come from Pekanbaru, Tanjung Pinang, Batam, Dumai, and Bengkalis.

Most of cakes produced by the cake makers are marketed through Gerai Dekranasda (Regional level of National Crafts Council) Kepulauan Meranti Regency, and is marketed through traders who sell variety of food around the harbour. The cake makers only produce sago cake in small quantity, due to limited fund to produce the cakes in larger quantity. Meanwhile, the demand for the processed sago cake is relatively high proven by the interview result with Gerai Dekranasda (Regional Council for National Crafts) Kepulauan Meranti Regency (Henny Indrawati, 2015) and cakes sellers at the harbour. The interviewees said that visitors who came and left Kepulauan Meranti Regency asked for sago cakes, but the sellers could not fulfil their requests because of limited number of the cakes produced.

Based on the phenomenon described before, sago cake business is a promising business that should be developed so that the sago cake makers are not only able to make a contribution to the family extra income but are also

able to to develop Kepulauan Meranti Regency as a culinary tour city of various sago nourishments in the future that could attract tourists to come to this region when they need sago processed food. In connection with it, it was quite necessary to conduct research on the appropriate financing method which might be suitable to be applied as an effort to provide funding for the sago cake makers in developing their businesses.

2. Research Problem

The problem the research is formulated in the following research questions: (a) What financing patterns have been applied in various sago based business activities in Kepulauan Meranti Regency?; (b) How are the perceptions of sago cake makers towards conventional and sharia financing banking institutions?; (c) How are perceptions of sago cake makers towards expected financing model in developing their businesses?; and (d) What is the appropriate financing model for sago cake makers to develop their businesses?

3. Research Objectives

The objectives of the research are: (a) To identify dan analyze the financing pattern being practised in various sago based business activities; (b) To find out perceptions of sago cake makers towards conventional and sharia financing banking institutions; (c) To find out the perceptions of sago cake makers towards expected financing; (d)) To formulate the appropriate financing model for sago cake makers to develop their businesses.

4. Literature Review

4.1 Potential Utilizaation of Sago

Sago, which is in Latin called *Metroxylon Sagu*, is a plant which reserves starch in its trunk (*metro*: pith, *xylon*: xylem, sago: starch). Sago is one of non-timber forest products commodities. This plant is a relatively high carbohydrate producer compared to other carbohydrate producing plants. Of the total area of sago forest in the world, Indonesia alone has one million hectares sago forest scattering in several provinces which make up 51.3% of sago forest in the world. The sago areas that give the biggest distribution in Indonesia are located in several provinces such as Papua, Moluccas, Riau, Sulawesi Tengah and Kalimantan (Daniel, 2012). As a result, sago mathematically makes a contribution to the national income of billions rupiah. Based on the review and mapping results made by Cooperation of Agribusiness Forum, if Indonesia wants to cultivate its sago and maximally utilizes its management in producing sago flour, it is estimated that within one time harvest, the sago flour industry with the price range of Rp. 2.400 per kilo gram would be able to contribute to the gross income within the range of 4 trillions rupiah (Nur Hayati, et all, 2014).

Based on the data produced by the Indonesian Association for Sago Utilization, the national sago production nowadays reaches 400.000 tons per year or just achieving around 8 per cent of national sago potential. Infact, Indonesia is the contributor of 55 per cent of the world sago, followed by Papua New Guinea 20 per cent, Malaysia 20 per cent, and other countries as much as 5 per cent (Ila, 2012). Of the total production above, almost fifty per cent of sago is produced by Riau Province and another fifty per cent comes from Papua, Mollucas and other areas.

Until today there has been no fixed data revealing when the sago was known for the first time. However, the most advanced exploitation technology of sago, its cultivation and processing are available in Malaysia, whereas in Indonesia sago is not much in use. Therefore, sago has good potential to be developed and its limited existence opens promising business opportunities. Domestic demands has started to increase, along with the development of food, pharmacy, or other industries. The potential export markets are Japan, Canada, United States of America, England, Thailand and Singapore (Shulhan, 2011).

In the perspective of food diversification, sago can be processed into various interesting nourishments. Sago starch can be processed into various traditional organic products, such as papeda, sinoli, ongol-ongol, sago lempeng, sugar sago, grown sago, pearl sago, bagea and so on. In addition, sago starch/dry sago flour can be processed into various snacks/ functional contemporary products, such as: bika, brownis, rollcook, bruder, bread, noodle, meat balls, and so on (Papilaya, 2008).

Research on sago processing was carried out by Timisela and Kembauw (2008) entitled 'The Role of Women Sago Processors in Supporting the Household Life in Central Moluccas Regency'. The objectives of this research were to know: 1) the women involvement in sago food home industries; 2) the women productivity in sago food home industries; and 3) the time spent by women working in sago food home industries. The research findings indicated that women

played a key role in making money for families at sago food home industries for the job was relatively easy to do; it was done at home; the working condition was comfortable and it's a businesses inherited from parents so that it is used as industry that are beneficial to the family survival.

In the same year, Timisela (2008) also conducted a feasibility study. The research found out that *stake holders'* attention was needed to develop sago food home industries in Saparua sub-district of Mollucas Province. The results showed that sago needed to be developed as it provided a very high contribution to increase the family income of the sago cake makers. Therefore, such a business needs to be preserved and sustained. In addition, Fatriani (2010) had also investigated the utilization of sago through its leaves with the title 'The Productivity of Sago Palm Roof Making and its Contribution towards Sago workers' Income in Hulu Sungai Selatan Regency of Southern Kalimantan. The Research results found out that the productivity of palm sago roof making was influenced by workers' age, income and work experience. Productivity will increase along with the increasing of age and work experience.

From the above studies already conducted, it is concluded that sago provides good benefits to improve people's economy, social welfare, national food commodity supply as well as availability of employment and businesses; therefore, this business needs to be developed.

4.2 Financing for Business Development

Financing is a kind of fund provided by one party to other party to support the planned investment, either done by oneself or by an institution. In other words, financing is some fund that is provided to support the planned investment (Muhammad, 2005). Financing according to Kasmir (2008) is the provision of money or bills and the like up on the agreement or consent between bank and the other party who is obliged to pay back the money or the bills after certain period with profit sharing. The function of financing is to increase the money efficiency, to increase goods efficiency, and to increase money circulation. Besides, it also functions to raise the business excitement, economic stability, and used as a bridge to increase the national income.

The purpose of financing is categorized into two groups (Muhammad, 2005); that is, macro and micro levels financing. In respect to macro, financing is aimed (1) to improve people's economy, meaning that the those who don't have economic access, through this financing scheme, they can get access to it by which they could improve their economic level; (2) to make sure funds are available to develop their businesses. This additional funds can be obtained through financing activities. The party that has excessive funds distributes the money to the party that in need of funds, so it can be rolled off; (3) to mprove productivity which means that financing gives opportunity to the business community to enable them to improve their production because desired production cannot be achieved without funds; (4) to open new employment, meaning that by opening business sectors by adding financing funds, the business sectors can absorb more manpower. This means increasing or opening new employment; (5) to bring about income distribution, which means that people through their productive businesses can perform working activities which means that they make money through their business. Income is part of people's revenue that can be distributed.

Unlike the macro level financing, in the micro level, financing is provided in order to: (1) maximize the profit, which means every business has its main purpose; that is, generating operating income. Every businessman wants to be able to get maximum profit. In order to get it, they should get sufficient financial support; (2) to minimize the risk which means that the effort being made should be able to provide maximum profit so that businessmen are able to minimize the risk that may arise. The risk of shortage of capital can be overcome through financing; (3) to utilize the economic resources which means that the economic resources can be developed by mixing natural resources and human resources with capital resources; (4) to distribute excessive funds, meaning that the financing mechanism can become a bridge to distribute excessive funds of the surplus party to the minus party.

In relation to business financing to increase the revenue, research was done entitled 'The Effect of Lending and Capital on SME Revenue. The findings showed that there was a positive and significant effect of (1) lending and capital on SME income, (2) lending on capital, (3) lending on SME revenue, and (4) Capital on SME revenue (Ni Wayan Ana Purnamayanti, et al, 2014).

Determination of palm oil farmers' demands for Sharia Financing was made in the early year of 2011 (Henny Indrawati, 2011a), and the farmers' perceptions towards new product characteristics in the adoption of customer's decisions for Islamic financing was also found out at the end of 2011 (Henny Indrawati, 2011b). To develop their business, generally palm oil farmers adopted *murabahah* as the financing model. *Murabahah* financing is considered simpler compared to the profit sharing financing system due to the operational similarities between *murabahah* and the consumptive lending offered by conventional banks.

5. Methodology

5.1 Research Location and Time

This research was done in Kepulauan Meranti Regency for about eleven months. It was conducted in areas which had processed sago cake makers spreading across four sub-districts, i.e. Tebing Tinggi, Tebing Tinggi Barat, Rangsang and Rangsang Barat sub-districts.

5.2 Research Type and Sample

This research was undertaken descriptively through a survey. The sample of sago cake makers was selected using the purposive sampling technique.

5.3 Data Collection and Analysis Technique

Primary data was collected through interviews mainly towards sago cake makers, and the other parties related to the research on the basis of the research central theme. An in-depth interview and FGD (Focus Groups Discussion) were also performed. The secondary data was collected from instances related to the research. Those data was analyzed using descriptive quantitative analysis.

6. Findings and Discussion

6.1 Capital Resources of Sago Cake Makers

Capital is one of the important factors to improve the productivity of a business and even the equity of access to the capital (credit) for all levels of community is believed to be one of the alternatives for the equity of income. This is based on the idea that with capital (credit) someone can optimize the resources he has to increase the profit of his business which, in return, can increase his family income and welfare.

Economically, the capital can come from own property or a loan from other party. The capital that comes from other party is usually in the form of a loan or credit. Basically, capital resources can be categorized into four groups, i.e., (1) business owner (own capital); (2) formal credit; (3) informal credit; and (4) partnership. The business of sago cake makers' capital resources generally come from own capital (80 per cent), loan shark (12 per cent), social gathering (10 per cent) and others (relatives, neighbours) as much as 8 per cent as shown in Table 1. To fulfill the capital requirements, most of them use their own capital although it's not enough to cover the required capital. Loan shark is their last option when they need money, although the interest charged is very high. Loan shark is more preferable for the financing procedures are not very complicated, the process is quick, no collateral required and based merely on trust.

Table 1. Capital Resources of Sago Cake Makers

No	Capital Resources	Number	%
1	Own	105	70
2	Loan Shark	18	12
3	Social Gathering	15	10
4	Others (relatives, neighbours)	12	8
	Total	150	100

Source: Research Data, 2015

Due to the capital limitation, most of sago cake makers can't routinely produce cakes; as a result, the consumers' demands for the cakes often can't be fulfilled. The sago cake makers had tried to borrow money directly from the bank, but the bank thought that the loan was small with higher risk compared to lending money to those with big businesses. Besides, they could not provide collateral deemed appropriate by the bank. The collaterals requested by the bank were in the form of land or building certificates, while the sago cake makers did not have such requirements. From the research result, it is clear that capital still becomes a constraint faced by the majority of sago cake makers in developing their

business.

6.2 The Financing Patterns already Practised in Various Sago-Based-Businesses

There are several sago-based-businesses in Kepulauan Meranti Regency including the ventures of sago flour production, sago noodle, sago crackers, sago rendang, sago lemak, and sago cendol. Judging from the business scale aspect, those sago-based-businesses are dominated by small businesses but they still need capital to finance their business development as shown in Table 2 below:

Table 2. Capital Resources of Sago-Based-Businesses

No.	Type of Business	Capital Resources				
		Own	Loan Shark	Social Gathering	Cooperative	Others (Relatives, Neighbours)
1	Sago Starch	5	3	-	2	-
2	Sago Noodle	3	3	3	-	1
3	Sago Cracker	7	-	-	-	3
4	Sago Rendang	4	2	2	-	2
5	Sago Lemak	7	3	-	-	-
6	Cendol Sago	10	-	-	-	-
Total		36	11	5	2	6

Source: Research Data, 2015

Table 2 shows that capital resources mostly come from own capital (60 per cent) and only 3,3 per cent comes from cooperatives. The advantages of having own capital are that businessmen do not need to share their profit with other parties, they have no debts, and they don't have to pay interest and administration fee. But the disadvantages are funds are limited and the businessmen are not motivated which means that the business owners who use their own capital have lower motivation compared to using the other party's capital.

The lack of interest of small business owners in utilizing cooperatives as capital resources is caused by its complicated procedures and a bit longer disbursement period, too much deduction towards the requested loan (around 20 per cent). This is different from the loan shark who directly provides a full loan without any deduction at the time the sago cake makers need funds although the interest charged is very high (30 per cent).

On the one hand, the existence of this informal financial institution is very helpful, as it reaches community groups who don't have access to formal financial institutions. On the other hand, the interest rate charged to the borrower is very high.

Small business owners who borrowed money from a loan shark said that the complicated and rigid administration procedure along with relatively long period, the cost needed to disburse the lending funds at formal institutions became higher than paying excessive interest rate to the loan shark. The loan shark's willingness to provide the loan was interpreted more as help or aid for them to overcome the business financing problems so that the higher interest rate paid was regarded as fringe benefits and a common thing and not burdensome.

The other resource of capital is from social gathering, arranged by housewives who live closed to each other (neighbourhood). The number of gathering participants is varied depending on the respective group. From the research result, besides collecting money, in the social gathering, money lending activity also takes place. Funds provided for the loan is taken from the cash money, and from deduction charged onto participants who wins the gathering lottery.

6.3 Perception of Sago Cake Makers towards Conventional and Sharia Financing

Perception according to Kotler (2004) is a process that is used by individual to choose, manage, and interpret the received information to create a meaningful. The perception of the processed sago cake makers towards conventional and sharia financing institutions has to do with the interest system. The perception toward the interest system was asked to the respondents as it is generally what distinguishes between conventional banking and sharia banking.

The perception on interest from religious point of view can be divided into three, i.e.: (1) against religious doctrine; (2) not against religious doctrine; and (3) no idea/in doubt. The research findings showed that 66 per cent of the respondents said it is against the religious doctrine, 20 per cent stated it is not against the religious doctrine, and the

remaining 14 per cent stated they had no idea/in doubt (Table 3). However, the research conducted showed that eventhough there were perceptions that the bank interest is against the religious doctrine, it is not the main reason for the respondents in choosing the bank type. The sago cake makers had their rational arguments saying that economic motivation contributed to their final options. They perceived that characteristically, sharia and conventional bank are relatively not different.

Table 3. Perceptions of Craftsmen towards Bank Interest from Religion Point of View

No	Capital Resource	Number	%
1	Against religious doctrine	99	66
2	Not against religious doctrine	30	20
3	In doubt	21	14
	Total	150	100

Source: Research Data, 2015

From the interview result, craftsmen stating that interest system actually is not a problem. The problem is that craftsmen can't access the financing of formal financial institution due to complicated financing procedure, long period, and require onerous collateral.

6.4 Perceptions of Sago Cake Makers towards Expected Financing in Developing Their Business

Credit institutions either formal or informal at village level are very important to cover insufficiency of business capital and other needs. In reality, the small business owners get access to informal institutions which provide high interest rates; on the contrary, large business owners get access to the formal credit institutions which charge low interest rates. This phenomena is very important to be studied and to make the policies in order that small businesses can also get access to formal institutions which provide credit with low interest rates.

Table 4. Financing Scheme Characteristics Expected by Sago Cake Makers

No	Financing Scheme Characteristics	Number	%
1	Type of Collaterals:		
	- Land and Building Certificates	0	0
	- The others (movable objects)	150	100
2	Credit Forms:		
	- Cash Money	135	90
	- Production Input	15	10
3	Credit Period:		
	- Short Term	150	100
	- Long Term	0	0
4	Interest rate per annum:		
	- 12 per cent	150	100
	- 18 per cent	0	0

Source: Research Data, 2015

Rahmat (2007) explains that in compiling credit schemes for small businesses, the policy making institutions must consider the characteristics of the small businesses as users, for example, still low in assets support, productivity, physical skills, revenue, education and business skills. Due to the limitation, the credit scheme offered have to be within its capacity limits; that is, the implementation of collateral type, credit form, credit period, and interest rate. For the clarification refer to Table 4.

Table 4 shows that based on the small business characteristics, the sago cake makers expect the credit which requires non-land and building certificates but in other form such as movable objects (100 per cent), credit provided in cash money (90 per cent), short-term credit period (100 per cent), and dan 12 per cent per annum credit interest rate (100 per cent).

The details of the financing scheme characteristics expected by the sago cake makers are as follows:

- a. Type of Collaterals
One of the constraints as to why the sago cake makers found it difficult to get access to formal credit institutions is that they don't have collaterals in the form of land and building certificates. Therefore, the credit institutions should avoid the use of land and building certificates, but when there's no option, collaterals are given in the form of movable objects like bicycle, TV and jewellery.
- b. Credit Forms
As many as 135 sago cake makers (90 per cent) expect that the credit is in the form of cash money because based on experience, credit provided in the form of production facility often cause losses, such as: (a) decrease in quantity or quality; and (b) delay in the distribution due to transportation problems. So, by using cash credit, the sago cake makers could manage themselves the available funds according to the needs.
- c. Credit Period
All sago cake makers expected that the credit period was on a short-term basis so that the cake production could be preserved continuously.
- d. Annual Interest Rate
All sago cake makers expected 12 per cent interest rate per-annum.

6.5 *Appropriate Financing Models for Sago Cake Makers to Develop Their Businesses*

Based on the observation, in-depth interview, and FGD with the sago cake makers, sago-based- entrepreneurs, and the P2TP2A of Kepulauan Meranti Regency together with Kepulauan Meranti Regency Department of Industry, Trade, Cooperative and SMEs, the appropriate financing model for sago cake makers was formulated in order for them to develop their businesses using the financing model that could ease them to get access to financing by the bank through companion appointed by Kepulauan Meranti Regency Department of Industry, Trade, Cooperative and SMEs, as shown in Figure 1.

Companion appointed by Kepulauan Meranti Regency Department of Industry Trade, Cooperative and SMEs is a cooperative judged as having good performance, i.e., Cahaya Multi Indonesia (CMI) Cooperative. The CMI Cooperative appointed a person deemed competent in doing the job as SMEs partner in accessing the credit from the bank, i.e., Joko Sucahyo (Head of CMI Cooperative). From Figure 1 describes 1) the processed sago cake makers who would request the loan from the bank must have a consultation in advance with the partner.; 2) The partner conducted a survey on the sago cake makers, prepared the financing proposal for submission, and calculated the financing required by the sago cake makers. Through the partnership, the sago cake makers would get necessary input and various financing alternatives being accessible along with various implications related to the funds resources. Through needs analysis the amount of financing needed would be known to be adjusted with the production capacity and the business' own finance.; 3) After all requirements applied are fulfilled, the partner together with the sago cake makers will come to the bank and submit the financing proposal. The partner also helps them to understand the financing agreement provided by the bank, related to their obligations, payment capability, and interest rate of the financing to be accessed; 4) When an agreement between the sago cake makers and the bank has been made, the bank will directly provide financing to the sago cake makers.

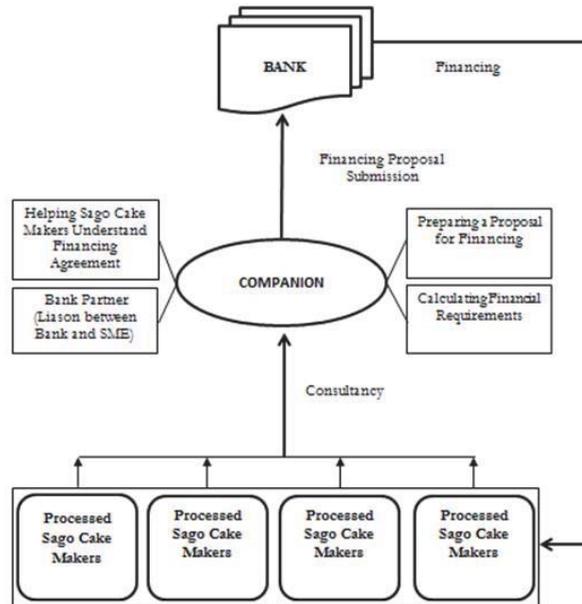


Figure 1. Financing Models of Sago Cake Makers (Henny Indrawati and Caska, 2015)

From research findings it is clear that the partnership activity has taken place since 2012. The partner conducts activities as described previously. The business analysis made by the partner will be used as guarantee by the bank. To this end, the business owner accompanied to get access to the credit have never had problems to pay their installment, so the bank has trusted the partner. The businesses that have accompanied to access the credit are motorcycle repair workshop, grocery shop, farm stall, draper, satay sellers and obile phones sellers with credit limit from 5 million rupiah up to 15 millions rupiah from Riau Kepri Bank Selat Panjang Branch and BRI Bank Selat Panjang Branch. But the sago cake businesses have never got any partnership to access the credit from the bank. After being interviewed, the processed sago cake makers did not know the existence of partnership program that had taken place. This is a good opportunity and hope for the processed sago cake makers in getting financing from banks.

As the bank already trusted the partner, it is expected that the credit accessing partnership activity can help the sago cake makers with limited guarantees get capital from the bank to develop their business. Therefore, the models that have been produced in this research are expected to be applied in long term to help the processed sago cake makers improve their economy.

7. Conclusions and Recommendations

7.1 Conclusions

Based on the outcomes of research conducted, the following conclusions are drawn: (1) The financing pattern being practised at various sago based business activity in Kepulauan Meranti Regency is the financing pattern with the capital resource coming from own capital, loan shark, others (relatives, neighbours), social gathering and cooperatives; (2) The perception of sago cake makers towards conventional banking and sharia banking financing institution had to do with their perceptions towards the interest system. Most of the sago cake makers said that interest is against religious doctrine, but it is not the main reason for respondents to choose the type of bank. The sago cake makers had rational argumentations including economic motivation in determining their options. They had perceptions that the characteristics of sharia dan conventional banks are relatively no different; (3) The perceptions of sago cake makers towards expected financing is that they expected the credit using collaterals not in the form of land and building certificates but in other form like movable objects, the credit is given in the form of cash, short-term credit period, and 12 per cent credit interest rate per annum; (4) The appropriate financing model for the processed sago cake makers to develop their business is

financing model which have access to financing from bank through other party appointed by Kepulauan Meranti Regency Department of Industry, Trade, Cooperatives and SMEs.

7.2 Recommendations

There are several suggestions provided in line with the problem in this research, they are: (1) The government is expected to be able to establish an institution for small business credit guarantor as the small business development fund coordinator whose share is owned by government; (2) To increase the scale of sago cake business, trainings on the problems in the managing financing and business management need to be organized so that the sago cake makers can keep growing and that the effort of Kepulauan Meranti Regency in order to make Kepulauan Meranti Regency as a culinary tourist city of various sago based foods in the future can come into reality.

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