GLOBAL INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

https://global-us.mellbaou.com/

Open Access

Cite this article: Febrianti, T. (2024). Analysis of Economic Institutional Transformation Description to Ensure Business Sustainability and Improve Farmer Welfare . Global International Journal of Innovative Research, 2(2). https://doi.org/10.59613/global.v2i2.73

Received: January, 2024
Accepted: February, 2024

Keywords:
Social Institutions, Farmer Economic Institutions, Transformation, Agriculture, Farmer Corporations

Author for correspondence:
Tintin Febrianti
e-mail: tintin_febrianti@uniga.ac.id

Published by:

GLOBAL SOCIETY PUBLISHING

Analysis of Economic Institutional Transformation Description to Ensure Business Sustainability and Improve Farmer Welfare

Tintin Febrianti

University of Garut, Indonesia

The process of agricultural development using the agribusiness system requires necessary conditions and sufficient conditions. Some of the requirements for agribusiness development are the availability of capital, natural resources, human resources and technology. All these mandatory conditions will be allocated and mobilized more optimally if there is an adequacy condition, namely the availability of institutional equipment. The close loop agribusiness horticulture program for red chili commodities in Garut Regency is a prototype for the implementation of the agribusiness system that summarizes the various requirements in a closed chain or close loop. The initial initiation of the government's role is still dominant, but in accordance with long-term goals, independence and empowerment of farmers are absolutely necessary so that farmers can be more proactive and progressive in utilizing market opportunities not only locally but regionally, nationally and internationally. Adequacy requirements in the form of institutional tools are needed, not only socio-cultural but institutional that also focus on achieving business profits. In this case, there was a transformation of farmer groups into cooperatives.

1. Introduction

In 2021, the agricultural sector contributed to Indonesia's National GDP by 13.28%, the contribution of the agricultural sector decreased by 0.42 percent compared to the previous year (Kusnandar, 2022). In 2022, the agricultural sector contributed to National GDP by 12.40%, down 0.88% compared to the previous year (Santika, 2023). Despite making a declining contribution to national income in the range of 2021 to 2022, the number of workers in this sector is still quite large, which is around 29.96% of the total number of workers in Indonesia (Kusnandar, Viva Budy, 2022). This means that the agricultural sector is still absorbing domestic labor, especially in the cultivation subsystem (on farm) with little added value. This condition leads to high poverty in the agricultural sector. Various ideas are implemented as an effort to increase the added value of agricultural products, among others, by developing activities in the processing subsystem through agro-industrial programs (off farm). Another idea is to conduct corporations at the farmer level to increase the capacity of farmers themselves in responding to the market, especially by increasing efficiency in their marketing subsystems.

The institutional transformation of the farmer economy is intended so that farmers not only focus on the cultivation subsystem but also want to be actively involved and increase their capacity so that they can follow the current market dynamics. The number of Productive Economic Groups alone in Indonesia has reached 12,429 groups in the form of Farmer-Owned Enterprises (BUMP) such as: Agricultural Cooperatives, PT (Limited Liability Company), CV (Commanditaire Vennootschap), KUB (Joint Business Group), MFI (Agribusiness Microfinance Institution) and others (Sariati, 2023). The socio-economic characteristics of Indonesian farmers are quite distinctive, with land tenure of about 0.5 hectares, low level of formal education, large number of family dependents, long market chain of products that have made farmers as individuals who find it difficult to ensure the welfare of themselves and their families. On the other hand, the noble task of the agricultural sector in building national food security cannot be ignored only with solutions to import national food needs. Serious and serious efforts are needed to pioneer a way out for farmers to get out of the chain of poverty. This paper contains ideas about efforts to transform social institutions at the farmer level into productive economic institutions, urgency, stages that must be passed, supporting and inhibiting factors and some examples of successful institutional transformation, especially in Indonesia.

2. Research Method

This research can be categorized as a type of library research or descriptive research, which is a type of research that uses library data as the object of research. The source of the data comes from books, research results, secondary data that can support the research topic. This literature research is included in the qualitative research approach. The emphasis point of qualitative research is on the quality aspect of the entity studied, and uses data in the form of narratives, story details, expressions and construction results from informants (Salmaa, 2022). This qualitative research is often called a naturalistic research method because the research is carried out in natural conditions where the data and analysis are more qualitative and presented descriptively (Afifuddin, 2012).

In this study of the institutional transformation of the farmer economy, several aspects will

be analyzed and described, namely: (1) the relevance of the institutional transformation of the farmer economy to poverty alleviation, (2) the process of institutional transformation of the farmer economy. As a source of information, the object of this study is the Eptilu Cooperative to Build Indonesia which has succeeded in carrying out the process of institutional transformation of the farmer economy.

3. Result and Discussion

The Relevance of Institutional Transformation of Farmer Economy to Poverty Alleviation

Data shows that the poverty rate in rural areas is still quite large, where the economic sector in rural areas is still dominated by the agricultural sector. So when talking about poverty in Indonesia, it also talks about poverty in rural areas which in fact is caused by the low average income of farmers from their agricultural activities. This is due to the socio-economic characteristics of Indonesian farmers with narrow agricultural land tenure and low level of farmer education, it is considered necessary to strengthen farmer business institutions and improve the quality of farmer human resources themselves. This is a medium-term and long-term strategic effort in efforts to alleviate poverty in rural areas (Hermanto, 2017).

This is in line with the results of research by Goenadi, et, al (2007) in Hasibuan (2013) explained that there are several obstacles that cause farmers to experience vulnerability to poverty. The obstacles in question are the difficulty of capital to provide various means of agricultural production, the added value of agricultural land exploitation is low, the uneconomic area of farmers' land, knowledge of farmers' crop cultivation is low, and weak institutions.

Poverty alleviation is synonymous with efforts to realize community food security. In this effort, it requires the sustainability of farmers' businesses that are oriented not only to the cultivation aspect but also oriented to the downstream agribusiness subsystem. This is one of the agricultural extension programs and targets that is able to mobilize agricultural actors (main actors and business actors) to improve their bargaining position (Sariati, 2023). Furthermore, according to Sariati (2023), the institutional transformation of the farmer economy can be carried out by implementing organizational management and farm management. With the improvement of the organizational structure, the farmer organization can have a wider business scale (200 – 3200 hectares) based on the area while having access to various agricultural technology innovations. The approach taken is an integrated and sustainable agribusiness system, with the hope of providing added value and increasing profits for farmers.

Table 1. Research on the Development of Agribusiness Institutional Models in the Agricultural Sector

No	Researchers; Year of Research	Identification of Institutional Characteristics and Transformation
1	Sariati, dkk ; 2023	The socio-economic characteristics of Indonesian farmers are one of the reasons for the difficulty of farmers getting out of the poverty trap. Changes in group functions or transformation of farmers' social institutions such as farmer groups and farmer groups are imperative as an effort to improve welfare and strategies that should be able to push farmers out of the cycle of poverty. The factors that influence the transformation process are: farmer participation,

		quality of human resources, farmers' access to financing, access to information and cooperation networks.
2	Putsenteilo, et.al; 2020	Analysis of institutional transformation in Ukraine discussing about the transformation of economic markets should be based on the main criteria for carrying out institutional transformation. These criteria are (1) criteria
3	Kusnandar, dkk ; 2013	Studies and analyses were conducted to formulate an institutional model of organic rice agribusiness in supporting food security. The profile of the organic rice community includes farmers, farmer groups, associations, extension workers, organic rice farmer associations, organic rice agro-industry companies, government and consumers. The design of the institutional model of organic rice in supporting food security is designed by referring to the agribusiness system which includes the upstream agribusiness subsystem, agricultural subsystem, downstream subsystem and supporting subsystem. The institutional model of organic rice agribusiness is designed to meet four dimensions, namely external environmental conditions, institutional motivation, institutional capacity and institutional performance
4	Parma, Putu Gede; 2014	Social institutions in Kintamani are generally almost the same, only the organizational structure is relatively different according to the needs and habits of the local community. Social and cultural institutions in the Kintamani agrotourism area in general are Sekehe Teruna Teruni, Farmer Group, Farmer Group Association, Sekehe Joged, Sekehe Santi, Sekehe Tabuh, Sekehe Payus, Sekehe Rejang, Sekehe Manyi, Sekehe Baris, Sekehe Pruguh, Sekehe Gong, Sekehe Gambuh, Village Credit Institution, Customary Village, Village Unit Cooperative, Catcher Group and Breeder Group. Social capital in the form of customs as well as natural beauty is the potential strength possessed by the buffer village community of the Kintamani tourist area
5	Hasibuan, Abdul Muis ; 2013	The design of the agribusiness cooperative-based rubber institutional model involves several institutions / groups, namely the role of universities, entrepreneurs, credit institutions, plantations, farmers, related agencies, cooperatives with the target of developing group dynamics. The more dynamic the group, the easier it will be to establish interaction between fellow group members. Group dynamics are influenced by group goals, group cohesiveness, group structure, group task function, group development and maintenance, group atmosphere, group effectiveness, group pressure, and hidden agendas

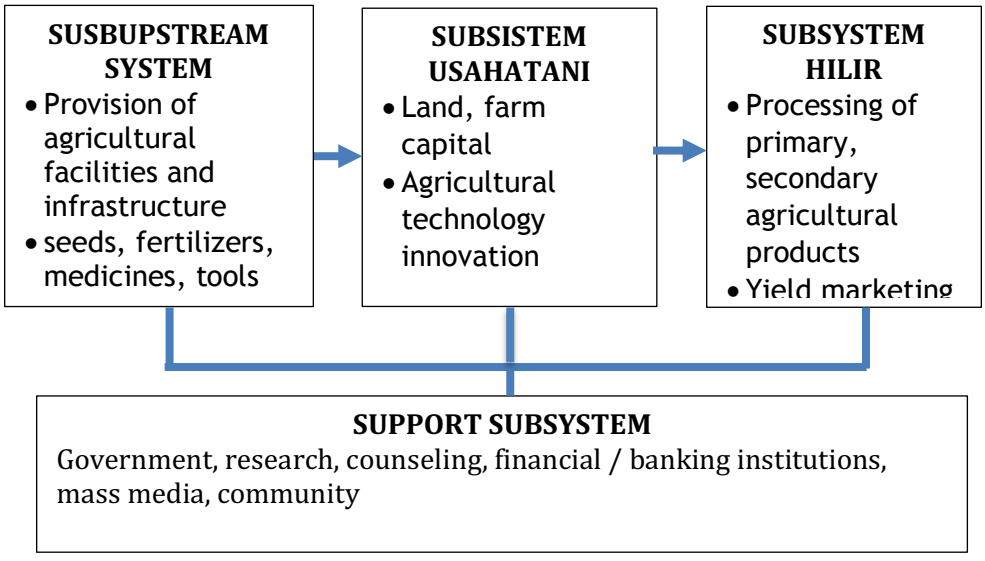
The Process of Institutional Transformation of the Farmer Economy

From several literature and research results, there is a similarity that a process of transformation of farmers' social institutions into productive economic institutions is carried out in the context of developing and increasing the capacity of agribusiness systems at the farmer level. The agribusiness system itself as a modern agricultural business system originating from developed countries with socioeconomic characteristics of farmers that are

different from farmers in developing countries, but referring to the understanding of the agribusiness system itself, its application can be done in developing country agriculture with some adjustments. The agribusiness system itself is an agricultural system that integrates various activities in each subsystem including the upstream subsystem (off farm system), farm business sub-system (on farm system), processing subsystem, marketing subsystem and supporting subsystem.

In developing countries, the agribusiness system runs partially with different actors in each subsystem. The upstream subsystem with the activity of providing agricultural production infrastructure is dominated by private institutions or large companies such as multinational companies that provide various agricultural inputs ranging from seeds, seeds, fertilizers, medicines for pests and plant diseases, agricultural tools and machinery. In the farming subsystem, farmers are the main actors, having to spend business sacrifices in the form of purchasing various inputs for their farming needs. Furthermore, in the downstream subsystem, the main actors are usually middlemen, big cities, rice millers. Finally, there are supporting systems such as government, agricultural extension, agricultural technology research and innovation. Agribusiness systems in developing countries can be described as follows:

Figure 1. Agribusiness System



In order to implement agribusiness as an integrated system, a paradigm shift is needed that farmers are not the main actors in the agricultural business system but actors who have a role in each subsystem. It is in this context that the transformation of peasant social institutions into productive economic institutions is a must. The transformation itself can take place culturally or structurally. Culturally, starting from the existence of a pioneer farmer (innovator) who has high entrepreneurial abilities so that he can follow market demand as the basis for the sustainability of his agricultural activities (demand driven), then this innovator farmer is expected to become a leader in the formation of economic institutions with various characteristics. However, there are times when the existence of these innovator farmers is difficult to find, so a structural approach is needed with the role of the government to grow these productive economic institutions. For the record, both culturally and structurally, both have a strong vision to implement the agribusiness system integratively so as to obtain added value and lead to improving the welfare of farmers.

These economic institutions can be in the form of farmer cooperatives, farmer-owned

enterprises, agribusiness joint usage groups, microfinance institutions and others. Basically, this farmer economic institution acts as an aggregator of all agribusiness subsystems from upstream, agricultural and downstream subsystems aimed at increasing added value as well as higher profits. In plain language everything is done on the principle of the farmer, by the farmer, and for the farmer. The journey is very long and may be complicated except with the support of all stakeholders in the pentahelix system who benefit each other.

One example of the application of agribusiness system integration with main actors in all subsystems is the Red Chili Horticulture Farmer Close Loop Program in Garut Regency, West Java Province. One way to implement a sustainable agribusiness system in Garut Regency is through the implementation of the Close Loop system for red chili horticultural commodities. In this system, networks are developed between various parties, namely aggregators represented by millennial farmers who then jointly develop farmer groups and agricultural cooperatives, markets, companies providing agricultural production facilities, government, research institutions and universities, mass media, financial institutions and marketing institutions in a hexahelix synergy whose ultimate goal is to increase productivity and farmer welfare to encourage farmers get out of poverty.

One of the problems as well as challenges to ensure the sustainability of this program is the quality of institutions at the farmer level. Farmer institutions play an important role as *sufficient conditions* in the sustainability of agricultural or agribusiness development to complete *necessary conditions* including technology, capital availability, natural resources and human resources (Uphoff, 1986). The availability of institutional tools is a requirement for adequacy because with institutional tools resources can be allocated and mobilized optimally (Wahyuningsih, 2007). Farmers who are accustomed to carrying out their business activities as a routine are required to follow changes according to external demands to ensure a sustainable agribusiness system. A sustainable agribusiness system allows productive efforts that have been carried out with the pilot of this *close loop* program to take place lumintu, providing profits as well as benefits to farmers. In such conditions, farmers will have more power and ability to prosper themselves and their families. In the *close loop program*, farmer groups have partnership agreements with financial institutions and market institutions. In accordance with the administrative demands of the two institutions, farmer group institutions that tend to be socio-cultural must transform into economic institutions in the form of cooperatives.

Changes in institutional functions, of course, must also be followed by changes in the competence of its members so that the purpose of establishing a cooperative, namely advancing together to improve the welfare of members, can be achieved. Growing farmer institutions (poktan and gapoktan) into farmer economic institutions is one of the strategies to increase farmers' income and welfare so that the poverty level of farmers in rural areas can be reduced (Sariati, 2023). The level of participation of farmers as members of cooperatives will be the determinant of the success of this institutional transformation. Participation as an attitude or behavior results from a distinctive understanding of the function and role of the cooperative itself. If all cooperative member farmers have awareness regarding this, it can be ascertained that the initial goal of forming a cooperative can be achieved because all member farmers will equally have responsibility for the sustainability of the cooperative business. If the cooperative business runs as it should, the main service function of the cooperative to its members will be easier to do. In such conditions, the attachment of member farmers to cooperative organizations takes place more closely. Furthermore, the identification of external party support in the process will open up greater opportunities to achieve the sustainability conditions of the agribusiness system, namely agricultural productive businesses that can improve the socio-economic life status of member farmers and have a circular impact on other fields including environmental sustainability.

4. Conclusion

Improving the welfare of farmers in developing countries can no longer be done with an approach to increasing production, but must be accompanied by increasing the productivity and welfare of farmers. Escaping poverty is a solution for them to ensure the sustainability of their farming. In this context, food independence and security should be achieved. One of the efforts that can be done is to transform farmers' social institutions such as farmer groups, farmer groups into cooperatives or other farmer economic institutions. The implementation of this is carried out by revamping organizational management and business management with an integrated and sustainable agribusiness system approach.

5. References

Afifuddin and Beni Ahmad Saebani. 2012. Qualitative Research Methods. CV Pustaka Setia. Bandung

Hasibuan, Abdul Muis. 2013. Study of Institutional Models in Rubber Agribusiness Systems. SIRINOV Journal, Volume 1 Number 2, August 2013

Hermanto. 2017. Poverty Alleviation in Rural Areas :P Human Resource Development, Business Strengthening and Agricultural Innovation. Journal of Agro Economic Research Forum Vol. 35 No.2, December 2017

Kusnandar, et al. 2013. Design an Institutional Model of Organic Rice Agribusiness in Support of Food Security. Journal of Development Economics Volume 14 Number 1, June 2013

Kusnandar, Viva Budy. 2022. This is the Contribution of the Agricultural Sector to the Indonesian Economy in 2021. https://databoks.katadata.co.id/datapublish/2022/02/15/, accessed January 31, 2024

Kusnandar, Viva Budy. 2022. Around 40 Million Indonesians Work in the Agricultural Sector as of February 2022. https://databoks.katadata.co.id/datapublish/2022/11/09/, accessed 31 January 2024

Parma, Putu Gede. 2014. Development of a Model for Strengthening Agricultural Institutions as Prime Mover for the Development of the Development Buffer Area (DPP) of Kintamani Tourism Destinations. Journal of Social Sciences and Humanities Vol. 3, No.1, April 2014

Salmaa. 2022. Get to know 12 types of qualitative research and their complete explanations. Get to know 12 Types of Qualitative Research and Their Complete Explanation (penerbitdeepublish.com), accessed January 31, 2024

Santika, Erlina F. 2023. The Agriculture Sector Contributes 12.4% of GDP in 2022, What Subsector Is the Largest? https://databoks.katadata.co.id/datapublish/2023/10/16/, accessed January 31, 2024

Sariati, Inang, et al. 2023. Transformation of Farmer Institutions into Farmer Economic Institutions as a Model for Accelerating Agribusiness Development

Uphoff, Norman Thomas. 1986. Local Institutional Development: An Analytical Sourcebook

With Cases. Kumarian Press.

Wahyuningsih, Sri. 2007. Agribusiness Development Reviewed from Institutions. MEDIAGRO Vol. 3 No. 1 Thaun 2007