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**Strengthening Model of Institutional Capacity of Sugarcane
Farmers in Situbondo Regency**

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STRENGTHENING MODEL OF INSTITUTIONAL CAPACITY OF SUGARCANE FARMERS IN SITUBONDO REGENCY

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Abstract

The institution of sugarcane farmers is one of mechanisms supporting economic activity in sugarcane agri-business. It has important role for increasing productivity and promoting bargaining position of sugarcane farmers. In fact, however, it is yet to functionate optimally. The research aimed at identifying institutional forms, analyzing inter-institutional interaction of sugarcane farmers, and formulating a model of capacity strengthening of sugarcane farmer's institution. This research used case study approach. The institutional sampling method was performed purposively. Data were collected by using observation, interview, and documentation techniques. Data analysis was carried out using qualitative descriptive method. The results showed that the institution of sugarcane farmers comprises farmers group, sugarcane farmers cooperative, sugarcane farmers association, sugar processing industry, and supporting service institution. The circumstances of sugarcane farmer's' institution is more socio-cultural. It has not been fully directed to promote farmers' access towards technology, capital, and market required for the development of sugarcane agri-business.

Keywords: *Capacity Strengthening; Institution; Sugarcane Farmers.*



A. Introduction

Free-market era demands readiness of each country to compete internationally regarding various commodities, including agriculture and plantation commodities. As an agrarian country, Indonesia has considerable resources of agriculture and plantation which can be utilized to enhance its global competitiveness. However, along with the emergence of this opportunity, Indonesia still encounters various issues on the development of agriculture and plantation agri-business. One of these issues is low sugarcane productivity. Data of Pusdatin Pertanian (2016) showed that annual farmers' sugarcane productivity on average reaches 2,52 tons per hectare with sucrose content under 10%.

Sugarcane agri-business issue is due to the disconnection between one sub-system and another. Thus, activities within sugarcane agri-business system are managed by various institutions. Sugarcane agri-business system is carried out by several institutions on the basis of market mechanism. Accordingly, the connection of farmers, institution, and market player is circumstantial. Farmers merely act as supplier of raw material to sugar industry (sugar factory). Connection between farmers and sugar factory is limited to connection between supplier and processor. Sugar factory has authority for the sugar distribution through the field of mechanism involving a major distributor and farmers association. In such structure, farmers' sugar prices are highly dependent on a market price which is prone to fluctuation. This causes farmers unable to have bargaining position to determine sugar price in sugarcane agri-business system.

Based on these circumstances, capacity strengthening is necessary in sugarcane agri-business system. This strengthening will urge various existing sugarcane farmers' institutions to become integrated. Institution has an important role. However, as cited in Nuraini (2016), Soekartawi stated that institutional aspects (both formal and informal) are exactly impeding aspects of the agri-business development in developing countries, including Indonesia. This fact occurs because these institutions are yet to function optimally.

As stated by Roucek and Warren, institution is a concept cohering with structure. It means that institution does not only involve activity pattern as a result of social aspect to meet human need, but it also deals with organizational pattern to conduct the institution (Anantanyu, 2011). Institution is also associated with measured relationship of a group of people which determine rights, obligations, privileges, and responsibilities within this institution (Arifin, 2004). It is established with a series of rules and norms which must be enforced and monitored by a competent body or internal society at individual level. It is a part of hierarchy and network having consequences on individual behavior and interaction (Arifin, 2005).

In general, the institution of sugarcane farmers is classified into: 1) sub-system institution of production facility (upstream), relating to provision and distribution of production facilities, such as producer, distributor, cooperative of small-scale sugarcane farmers, and association; 2) on-farm sub-system institution/production, operating in the production field or farming, such as farmers' household, farmers' group, and incorporation in cooperative of small-scale sugarcane farmers; 3) downstream sub-system institution, relating to product processing administered by sugar factory; 4) sub-system institution of supporting services, such as government, financing institution, marketing and distribution institution, consulting agency, research institute (Husnah, 2014).

According to Mackay et.al., as cited in Syahyuti (2004), there are several dimensions related to institution. They are as follows: 1) the external environment, i.e. socio-cultural and economic condition, government and political condition, technological development, the emergence of various interest groups; 2) the institutional motivation, i.e. institutional establishment, aspired mission, culture serving as the principle for its members' behaviour; 3) the institutional capacity, i.e. ownership of resources, managerial supervision, external relations; and 4) the institutional performance, i.e. institutional effectiveness to achieve its goals, efficiency of resources utilization, institutional sustainability.

The existence of institution is capable of insuring continuity of disseminating technical knowledge or technology to farmers, establishing



cooperation among farmers, and boosting more efficient utilization of resources. By means of institution, farmers are encouraged to be competitive within an open market (Lystiati, 2014). It must be fully controlled by sugarcane farmers in order to function at optimally. For that reason, the strengthening of farmers institution must be based on the potential of local resources, including human, institutional, physical, and natural resources of a region (Subiyono, 2014). Inline with that argument, the results of study performed by (Suyono, 2008) found that the institutional strengthening could also be carried out by building cooperation network of inter-institution within a community, developing cooperation network of inter-institution between communities, and creating innovative breakthrough to enhance institutional capacity in accessing capital, especially to widen capital access for individual farmer. Thereby, institutional strengthening will be able to increase productivity and accommodates farmers' interest in undertaking sugarcane farming.

The analysis related to sugarcane farmers' institution is considered essential to obtain the description of a social phenomenon dealing with the institutional capacity and the inter-institutional relationship within sugarcane agri-business. It is necessary since sugarcane farmers' institution has an important role to increase productivity and to promote farmers' bargaining power. This was case study research in Situbondo Regency, East Java. Therefore, in many aspects, locality aspect and specific issue became more dominant. However, within certain limitations, this analysis can generally be valid. In particular, this research aimed at identifying institutional forms and analyzing inter-institutional interaction of sugarcane farmers. Afterwards, a model of capacity strengthening of sugarcane farmers' institution would be formulated. This model can be an alternative in formulating policy related to the capacity strengthening of sugarcane farmers' institution.

B. Method

The research was performed by using descriptive method, that is, a research aimed at depicting thoroughly a certain social phenomenon (Singarimbun, Masri & Efendi, 1989). Descriptive research can be

performed using qualitative or quantitative approaches (Sukmadinata & Syaodih, 2011). It focused on sugarcane farmers' institution in Situbondo Regency, East Java, regarding the fact that this area is one of centers of sugar industry and sugarcane plantation in Besuki region. There are four sugar factory or *pabrik gula* (PG) in this regency, namely PG Olean, PG Asembagus, PG Pandjie, and PG Wringinanom.

The institutional determination was conducted purposively, which is determination technique of institution based on certain considerations (Idrus, 2009). There were four sugarcane farmers institutions examined, i.e. (1) farmers group, (2) cooperative of sugarcane farmers, (3) association of small-scale sugarcane farmers, and (4) institution of financial service. Data were collected by using observation, in-depth interview, and documentation technique. Primary data were obtained by means of observation and in-depth interview with the informant from each institution, whereas secondary data were obtained by means of documentation technique.

The identification of characteristic and institutional pattern in sugarcane agri-business was conducted by using qualitative-descriptive method. Subject of study covered institutional dynamics in each of sub-system of sugarcane agri-business. In each institutional sub-system, what were observed included actual condition, issues encountered, and their problem-solving. Subsequently, each sub-system was analyzed to show the inter-institutional connection in sugarcane agri-business system.

C. Research Finding

1. Sugarcane Farmers Institution

The institutional support has an important role in bolstering economic activity of sugarcane farmers. Sugarcane farmers institution is at upstream (production facility) and downstream (product processing) levels, comprising farmers group, cooperative, association, and supporting services. To the extent of institutional strengthening in sugarcane agri-business, it is necessary to carry out analysis as to the institutional aspects which include institutional management, human



resources, services, partnership network, as well as policy analysis with regard to product and trade.

Referring to the institutional classification in sugarcane agri-business system, sugarcane farmers institution can be divided into upstream, production, downstream, and supporting services sub-system institutions (Husnah, 2014).

a. Institution of Upstream Sub-system

Institution of upstream sub-system relates to input fulfillment in sugarcane agri-business. In Situbondo Regency, this institution comprises sugarcane farmers' cooperative and association. Sugarcane farmers cooperative acts to serve farmers' or farmer group's need for procurement of means of production, distribution of government assistance, and provision of capital. In terms of capital provision, cooperative acts to provide capital assistance for farmers. Cooperative, in accordance with sugar factory and supporting services institution, provides capital for sugarcane farmers. The amount of credit received by farmers from sugar factory is based on the extent of field owned by farmers. Loan for one hectare-field ownership is Rp25 millions, whereas field ownership less than one hectare will be given Rp10 millions with fixed interest rate defined by sugar factory. Loan installment system is deducted from the bail received from sugar factory. Several government assistances for farmers/farmers group are distributed through cooperative. Meanwhile, association is a forum of sugarcane farmers institution whose goal is to help accentuate farmers' interest with regard to production and trade system. Compared to cooperative, association dominantly acts to promote farmers' bargaining position, particularly related to policy of sugarcane agri-business.

b. Institution of On-Farm/Production Sub-system

On-farm/production sub-system is a sub-system which operates in production field or agriculture undertaking consisting of farmers as the smallest undertaking unit or farmers group. Sugarcane farmers in Situbondo

Regency are classified into two groups, that is independent and small-scale sugarcane farmers. Independent sugarcane farmers obtain capital independently, which is why they have option to sell their sugarcane to any sugar factory without being attached to certain party. On the other hand, small-scale farmers generally obtain capital assistance from sugar factory. Thus, they have an obligation to supply their sugarcane for sugar factory which has provided them the capital. Both independent and small-scale sugarcane farmers are incorporated in farmers group. It acts to help farmers out in terms of technology and capital. Regarding technological aspect, farmers group cooperates with counseling officer and sugar factory. While for capital, sugar factory generally provides capital assistance for farmers group or sugarcane farmers through cooperative. Thereby, in terms of capital, farmers or farmers group do not have direct access to the source of capital (sugar factory).

c. Institution of Downstream Sub-system

The third institution in sugarcane agri-business system is downstream sub-system which is related to the product processing. Product generated by downstream sub-system is sugar processed from sugarcane which is produced by *on-farm* sub-system. The main player of this third sub-system is sugar factory. In Situbondo Regency, there are four sugar factories which are state-owned enterprises administered by PTPN XI, East Java. Sugar factory directly undertakes sugar marketing through bidding mechanism. The sugar bidding involves distributors and farmers associations as the representative of sugarcane farmers. Price of farmers' sugar is determined by the result of this bidding. The sugar bidding results is divided for sugarcane farmers and sugar factory as the processor by way of pre-determined profit-sharing system. Farmers also obtain share of sugar and sales results of sugarcane molasses from sugar factory.

d. Institution of Supporting Services Sub-system

Supporting services sub-system acts to help sugarcane farmers in production process, consisting of financing institution, distribution and



marketing institution, counseling institution, as well as research institute. This sub-system's role is to provide trainings dealing with sugarcane agri-business and capital assistance for sugarcane farmers and farmers group in Situbondo Regency. Among all supporting services institutions, financing institution has the greatest influence towards sugarcane farmers in this regency. The financing institution includes banking, credit banking, cooperative, and individual (middleman). For small-scale farmers, middleman's role is quite dominant as the capital provider because of their difficulty to access capital from financing institution.

2. Model of Capacity Strengthening of Sugarcane Farmers Institution

On the basis of institutional form and inter-institutional interaction of sugarcane farmers, we are able to formulate a model of institutional capacity strengthening. The model is based on approach of sugarcane agri-business system comprising upstream, *on-farm*, downstream, and supporting services sub-systems. Besides, the model is also built upon internal aspects of institution, that is, organizational, resources, services and inter-organizational or cooperation aspects.

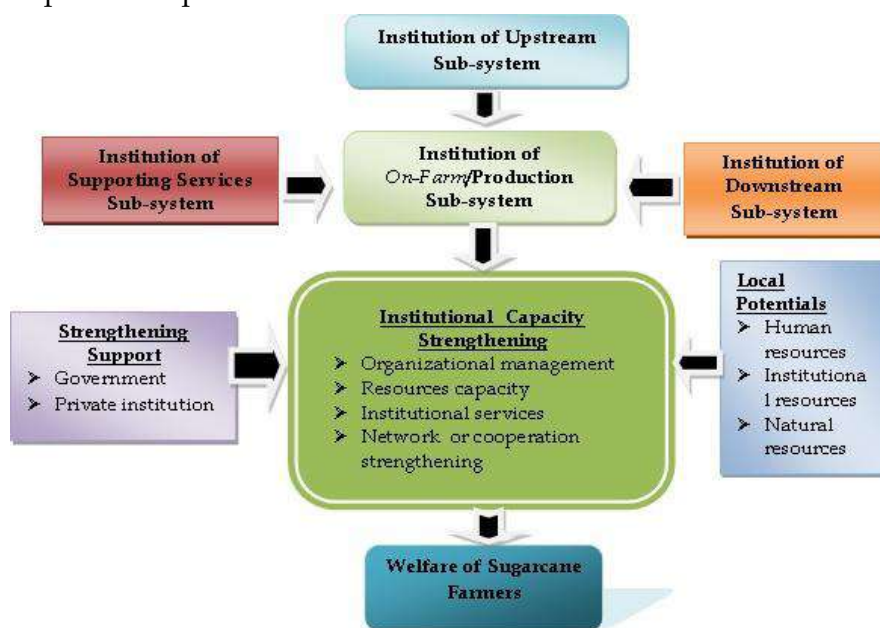


Figure 1. Model of Capacity Strengthening of Sugarcane Farmers Institution

In sugarcane agri-business, farmers' position is as sugarcane producer which is at *on-farm*/production sub-system. The results of research showed that farmers still encountered issues with regard to technology, field, capital, and trade system. Farmer's institution, such as farmers group, farmer's cooperative, and association, can serve as farmers' means to promote economic activity as well as farmers' bargaining position, especially towards sugar industry. The inter-institutional connection from upstream sub-system, downstream sub-system to supporting services sub-system become one chain with farmers or farmers group as a system. In order that role of each institution can be maximized, the strengthening of institutional capacity is required based on institutional aspects, including organization, resources, services, and network or cooperation. Strengthening support from related institutions, both government and private, will have an impact on institutional capacity. This capacity strengthening cannot also be dissociated from locality aspect of each region as to the availability of human, institutional, and natural resources. The implementation of this model is expected to be capable of boosting the development of sugarcane agri-business which can affect sugarcane farmers' welfare.

D. Discussion

With reference to the research finding, the strengthening of sugarcane farmers' institution cannot be dissociated from institutional dimensions, i.e. institutional capacity and environmental factors. The institutional capacity is determined by resources ownership, management supervision, and external relation. According to Hanani (Krisnamurthi, 2012), supervisor quality still become considerable issue for sugarcane farmers institution. This affects institutional effectiveness; therefore, it is necessary to enhance human resources capacity by means of trainings in cooperation with related institutions.

Limited availability of human resources results in inefficient management supervision. In terms of institution, organizational management supervision is related to the function of planning, job sharing, arrangement of



inter-individual relation within institution, and controlling. Implementation of these functions has not been effectively conducted. For instance, cooperative as one of sugarcane farmers' institutions is yet to be supervised conforming managerial functions. Similar argument was stated by (Ariningsih, 2013) who concluded that most of sugarcane farmers cooperative in East Java was at state of *diseconomies of scale* or operated inefficiently. In addition, institutional leadership factor is commonly so *top-down* in nature that aspiration and decision only emanate from a group of people. Therefore, institutional managerial enhancement constitutes a requirement for upgrading the performance of the entire institution.

Institutional capacity upgrade must also be supported by promotion of cooperation relationship with external party. As known, sugarcane farmers' institution still establishes limited cooperation relationship; one of which is sugar factory. Meanwhile, relationship with other institution, such as financial and non-financial institutions, has not much been organized. For instance, cooperative merely establishes cooperation relationship with sugar factory and association. Similarly, farmers group merely build limited cooperation relationship with cooperative and association. In terms of sugarcane agri-business development, institution demands expansion of partnership or cooperation network with other institutions in order to expand financial and non-financial institutional access.

The strengthening of institutional capacity should be followed by the upgrade of services capacity. All this time, sugarcane farmers, particularly small-scale farmers, have not widely accessed the institutional services. The schemes of capital assistance provided by undertaking institution still prioritize certain interest of farmers group. This fact other wise narrows down the access for small-scale farmers. It is the underlying factor why they make use of capital resources provided by middleman. Institutional services-related innovations are required as breakthrough in order that farmers have an equal opportunity to gain institutional facility.

The environmental condition, such as government and political condition as well as local potential, also affects the institutional circumstances. Basically, each region has different potential as to human,

natural, and institutional resources. These regional potential can become the strength of institutional development because they characterize each region. However, these aspects are yet to be utilized optimally for building institution. It is due to socio-cultural condition of local community which is unsupportive for the institutional existence as an institution. Institution is merely considered as an interaction forum with the fellow farmers without comprehending its goals and functions.

For that reason, private institution and governmental support is highly required to promote institutional capacity of sugarcane farmers. Government, including local government, is a regulator serving to formulate various policies. The support of governmental policy can assist such institutional capacity strengthening that it eventually raises farmers' wealth. That is why synergy of government and institution is necessary, from upstream level to downstream level as well as supporting institution.

E. Conclusion

The role of sugarcane farmers' institution in supporting sugarcane agriculture undertaking has not been optimal. Capacity weakness has an impact on institutional effectiveness of sugarcane agri-business. The model of institutional strengthening aims at promoting institutional role in order to enhance performance which affects sugarcane farmers' welfare. It is based on the development of the institutional aspects, i.e. organizational management, human resources, services, and partnership or cooperation network without setting the existing locality aspect aside. The implementation of this model requires inter-institutional synergy of sugarcane farmers by eliminating inter-institutional sectoral ego as well as the strengthening support of government and other related agencies.

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