

PRO-POOR POLICY OPTIONS: INTEGRATED SUPPORT SERVICES FOR THE AGRICULTURE SECTOR IN INDONESIA

INTRODUCTION

This policy brief suggests that enhancing farmers' access to integrated support services, strengthening agricultural extension, and providing credit assistance to farmers, are important means of improving their production and livelihoods.

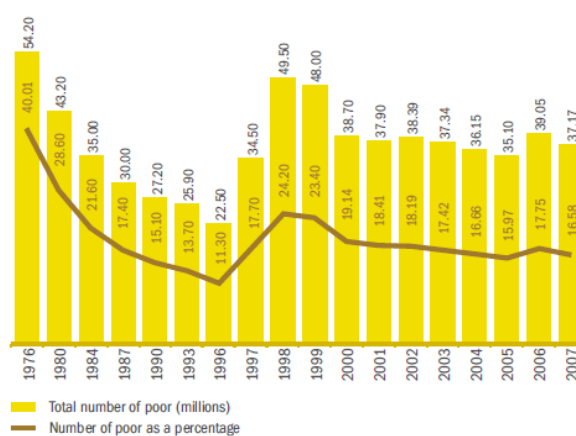
Policy analysis findings and recommendations from a study conducted under the auspices of a "Pro-poor Policy Formulation, Dialogue and Implementation at the Country Level" project inform this brief¹. Between 2007 and 2010, the Food and Agriculture Organization–Regional Office for Asia and the Pacific (FAO-RAP), with support from the International Fund for Agricultural Development (IFAD), implemented this project in partnership with governmental and non-governmental organizations in eight Asian countries. The project goal was to enhance institutional capacity to conduct policy analysis, formulate and implement pro-poor agricultural and rural development policies. In total, twenty-three policy studies examined issues identified at national level dialogues in all project countries².

CONTEXT

Poverty has been declining in Indonesia since the late 1970s. If the \$1/day indicator is used, the country has already attained its first Millennium Development Goal. However, the effectiveness of development initiatives is judged against the national \$2/day poverty line. And here, work remains to be done (Figure 1).

Policies and programs in support of rural agriculture and livelihoods promise to effectively reduce poverty in Indonesia since nearly 82 percent of poor people live in rural areas and more than three-quarters of the rural poor are farmer households (Warr, 2005; NSES, 2004).

Figure 1. Poverty in Indonesia (1976-2007)



Source: National Development Planning Agency, 2007

PROBLEM STATEMENT

Growth of the agricultural sector is a key strategy for improving the livelihoods of Indonesia's poor, considering that the sector employs 40% of Indonesia's work force. Nonetheless, over the past decade, growth rates have fallen and even become negative for some crops. Public investment in agriculture remains low in proportion to agricultural GDP.

¹ Noer Azam Ahasani, Siti Jahroh, Dwi Wahyuniarti, and Dicky Firmansyah (Brighten Institute) authored the study on which this brief was based. Study methods included quantitative and qualitative data analysis from both primary and secondary sources. In particular, focus group discussions and in-depth interviews were conducted with stakeholders. The original study can be accessed by contacting: INFORMATION.

² The other selected policy issues for Indonesia include Empowerment of Indigenous Communities and Rice Crop Insurance.

The support services necessary to accelerate inclusive agricultural growth include agricultural research, extension and/or technology transfer systems, institutional credit, marketing facilities, and a conducive legal environment, among others. Yet small-holder farmers continue to face challenges including:

- 1. Limited availability of primary inputs:** Processing and certification of improved seeds, for example, is outdated and distribution systems have not prioritized. There are also financial obstacles to farmers' adoption of improved seeds and fertilizers considering that subsidized prices remain relatively high.
- 2. Poorly adapted extension and research systems:** Irregular refresher trainings and poor training facilities limit the capacity of extension services, which are already understaffed. Farmers also complain about extension officer unavailability, since many live away from the communities they are meant to serve. Even were there to be sufficient extension workers³, a system to perfect and modify technologies at the regency or district levels is lacking. The National Agricultural Research System (NARS) remains centralized, leading to outputs which are not always relevant to local needs.
- 3. Limited access to credit:** Commercial banks' and formal financial institutions' credit disbursement systems and procedures are complicated and can exclude farmers who do not have the necessary collateral or education. Financial institutions may be wary to provide small loans, due to high transaction costs, or the perception that agriculture is a high risk sector.

Lastly, the component parts of agricultural support services are currently provided in a piecemeal fashion. Services remain supply-driven and require producers to go to different sources for particular services, which is a time-consuming prospect.

POLICY OPTIONS

An opportunity therefore exists to enhance farmers' access to integrated support services, strengthen agricultural extension and provide credit assistance to farmers, as a means of improving their production and livelihoods. These services should be located at the regency or sub-district level to more effectively reach the target population.

Programmes including Farmer Empowerment through Agricultural Technology and Information (FEATI) and Rural Agribusiness Development (PUAP) create an important foundation for improving integrated support services. As such, recommendations should build on these programmes' actions to enhance outcomes and improve service quality. Centrally, it is recommended to:

1. Avail integrated support services to farmers

- **Select appropriate models based on regency or sub district needs:** One model suggests making services available at the market yard at the sub-district level. In the event that farmers' group federations are judged sufficiently strong, the government could also support them to create space and infrastructure for service outlets at the sub-district level. In addition, contract farming or other commercial farming arrangements may be considered- depending on the crop.

³ The late 1960s experience with the BIMAS (Mass guidance program), illustrates Indonesia's ability to provide effective and integrated extension and support services. More recently, however, reduced regional and provincial investment - following decentralization- has weakened the agricultural extension and technology transfer system.

- **Value local knowledge and work through existing programs:** Local institutions should be empowered to work alongside farmers, government and private sector actors. In particular, approaches should be integrated into existing programs (as discussed below).

2. Enhance support for agricultural technology and agricultural extension at local levels

- **Establish technology and science centres in each regency:** Indonesia boasts agricultural research institutes focused both on technology generation as well as socio-economic and policy aspects of agricultural development. There is an expressed need however, for research and technologies to be location-specific, considering the diversity of agro-ecosystems in a country as vast as Indonesia. The National Agricultural Technology and Research Agency (BPTP) should establish regency-level agricultural technology and science centres (ATCS) and staff them with professionals including, but are not limited to: agronomists, soil scientists, agribusiness specialists, and horticulturalists. Principally, the centres will conduct adapted trials of new technology intended to gauge their suitability to the area, orient extension workers and farmers group leaders, and provide technology demonstrations and extension information in local language.
- **Ensure that models respond to local needs:** National Law No. 16 (2006) seeks to create a locally adapted agriculture, fishery and forestry system. The Central government is collaborating with local governments to create Extension Coordinating Boards, enhance infrastructure facilities, and provide incentives for extension officers. Over 50,000 officers are now serving nation-wide and it is suggested that that each village have one trained agricultural extension officer based there.
- **Integrate approaches in existing programs:** Farmer Empowerment through Agricultural Technology and Information (FEATI) seeks to improve farmer productivity and incomes through increasing access to information, technology, capital and outputs between 2007 and 2011. FEATI's main foci include strengthening agricultural extension through institutional development, capacity development of extension officers, and service improvement as a means of creating an agricultural research and extension system adapted to global challenges. The program also targets farmers groups and associations for development of agribusiness and partnerships.

3. Provide user-friendly credit to small farmers

- **Establish a National Bank for Agricultural and Rural Development:** As a joint effort between the Ministry of Finance, Central Bank and commercial banks, the NBARD would refinance commercial and cooperative banks for lending to the rural and farm sector. Commercial lenders must also be encouraged to expand their clientele base, perhaps in setting lending quotas indicating that a particular percentage of total loan portfolios must be dedicated to the agricultural sector, for example.
- **Integrate approaches in existing programs:** The Ministry of Agriculture's Rural Agribusiness Development (PUAP) program is facilitating capital assistance to farmers, through federated farmers groups (GAPOKTAN) in 10,000 poor villages. GAPOKTAN are farmer-owned and operated economic institutions which deliver assistance to their members, under the guidance of extension officers. PUAP can serve as a model and entry point for approaches to avail credit to small-holder farmers.

CONCLUSIONS

Pro-poor policies are essential to helping Indonesia halve poverty by 2015. As more than three quarters of the poor live in rural areas and are involved in agriculture, policies and programs targeting rural farmers promise to effectively reduce poverty in Indonesia.

Small-holder farmers continue to face challenges due to limited availability of inputs, poorly adapted extension and research systems and limited access to credit. Moreover, the support services they are able to access do not form a comprehensive or integrated package as yet. This brief suggests that ensuring integrated support services, strengthening agricultural extension and technology outreach and providing credit assistance to farmers, are important steps for improving agricultural production and livelihoods of the poor. As much as possible, these measures should be integrated in existing programs like FEATI and PUAP. In particular, it is suggested to:

- Select appropriate extension and support service models based on regency or sub district needs
- Value and involve local knowledge in service delivery
- Establish technology and science centres in each regency
- Establish a National Bank for Agricultural and Rural Development and urge commercial lenders to dedicate a portion of loans to the agricultural sector

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