

# INDONESIA | BACKGROUND

<b>Population<sup>1</sup></b>	243 million
<b>Of which in agriculture<sup>1</sup></b>	~102 million (42%)
<b>Of which smallholders<sup>2</sup></b>	~90 million (4.0% of global total)
<b>Funding flow % world</b>	3.0% of total funding captured
<b>% Asia</b>	8.8% of total Asia funding captured

Total Funding Captured 2009-onward:

**\$359M**

Total Number of Projects Captured:

**25**



## Overview of Indonesia's agricultural sector

Indonesia's economy is expected to grow by 5.5% in 2010, and by 6% in 2011.<sup>3</sup> The **agriculture sector is critical** for rural household incomes, employing more than 40% of labor and contributing 17% of GDP.<sup>4</sup> But **agricultural productivity growth has been slower** and is currently low both compared with other countries and historically for Indonesia.<sup>4</sup>

Due to increased irrigation, integrated pest management, better seed and application of enhanced major nutrients, Indonesia achieved rapid productivity gains in the past. However, **yields per unit and national average yields have been stagnant since the early 1990's**.<sup>4</sup> Total factor productivity growth has fallen from annual gains of 2.5% from 1968-1992 to yearly contractions of 0.1% from 1993-2000.<sup>4</sup> According to the World Bank, there are multiple reasons for this: Firstly, **irrigation investment has come to a halt** with the crisis, leading to an outdated and aged irrigation infrastructure. Secondly, **agricultural extension services have declined** and now serve fewer farmers. And finally, in contrast to earlier Green Revolution technologies, most new **technologies** for enhancing agriculture productivity have become more specific to agro-ecological areas and consequently **have fewer widespread benefits**. Both government spending and private investments in the agriculture sector as a percentage of agricultural GDP have also declined in the 1990s.

**Productivity rates of rice and sugar have slowed down significantly**, thus generating less additional employment opportunities and contributing less to income growth.<sup>4</sup> However, the **cocoa and palm oil markets have rapidly expanded** in the last three decades, largely because smallholders are increasingly participating in these markets. From 1990-96 over 70% of the total cocoa production, and 30% of palm oil production came from smallholders.<sup>5</sup> Indonesia is the world's largest producer of palm oil, and the third largest producer of cocoa. Smallholders also account for more than 90% of production in coconut, coffee, cashew and pepper.<sup>5</sup>

**Revitalizing agriculture remains critical for Indonesia's economic prosperity.** Agriculture was not only historically the main driver for Indonesia's dramatic reduction of poverty, but continues to be a vital source of growth and poverty alleviation today. In rural areas agricultural sector growth induces non-agricultural sector growth by stimulating demand for locally produced goods and services. Both in Indonesia and in many other countries agricultural sector productivity growth (along with price changes) has remained the most important way out of poverty.<sup>4</sup>

## Challenges and opportunities of the agricultural sector

- **Shifting from low value to high value crop and livestock activities:** Smallholders with small plots or poor land quality often cannot support their families from rice farming income. Diversifying into higher-value crops, livestock and fish production is a way of responding to new types of consumer demand. **Technical assistance from either the public or private sector is critical for this.** A first step taken by the government could be reducing the trade-policy-based price bias in favor of rice and sugar production. Compared with other agricultural activity options, farmer income improvement through these two crops is more limited (though opportunities should not be neglected).<sup>4</sup>
- **Shifting from a domestic to an international market focus:** Expanding the production of export commodities provides an excellent opportunity to improve farmer incomes. Scarce energy supplies have driven up the market values of **rubber, palm oil and sugar**. Opportunities also exist to improve the quality of Indonesia's beverage crops (**cocoa, coffee and tea**) and horticultural products.<sup>4</sup>
- **Smallholders' access to export markets** is still limited, but can be **significantly enhanced** through facilitation of **public private partnerships** as well as greater government focus on facilitating interaction between different members of the industry. Government could also coordinate policies, thus creating both incentives and investments in public goods such as agricultural research, extension services, and infrastructure. Combined with private initiatives this could generate competitive advantage.<sup>4</sup>
- **Moving from agriculture to agro-industry and the rural non-farm sector:** Due to the extremely small plots of many smallholders (often less than 0.5 ha of land) rural households that are primarily engaged in agriculture can be expected to continue to rely on **diversified income** from other labor and business sources. These already account for half of rural household incomes.<sup>6</sup>

Shifting agriculture along the above-mentioned dimensions will require an **enabling agriculture policy environment**, significant improvement in the **delivery of key services**, agricultural research and **extension** in particular.<sup>4</sup> This will allow enhanced provision of public goods and services, which build support systems for farmers to achieve continuous productivity gains.

<sup>3</sup> World Bank : "Indonesia: Country Brief" (World Bank Website)

<sup>4</sup> World Bank "Sustainable Management of Agricultural Research and Technology Dissemination; A Strategic Framework" 2008

<sup>6</sup> Asian Development Bank: "Indonesia: Strategic Vision for Agriculture and Rural Development"

<sup>1</sup> World CIA Factbook

<sup>2</sup> Estimate extrapolated from "Small farms: current status and key trends", Oksana Nagayets, IFPRI, 2005

# INDONESIA | SMALLHOLDER FUNDING TRENDS

## Funding trends by focus area

Investment in infrastructure/environment makes up the largest portion of smallholder funding flows to Indonesia, with five of the eight projects concerned with irrigation, in line with the challenges noted on the prior page around rehabilitating the irrigation infrastructure.

In the inputs/training focus area, IFAD's **Rural Empowerment for Agricultural Development Programme** in Central Sulawesi Programme introduces sustainable agricultural technologies and practices and provides for a revolving fund through which poor farmers can undertake a range of activities to generate income and create assets. The remaining eleven projects in this area are smaller, mostly bilateral funded initiatives largely focusing on specific crops and products in defined geographies such as **sweet potatoes, livestock, rice, passion fruit, and hatcheries**. Given the need for more extension services noted on the previous page, especially to help shift from low value to high value crop and livestock activities, this focus area appears to be underfunded.

In the access to finance/markets category, the majority of funding captured comes from the **World Bank's Farmer Empowerment through Agricultural Technology and Information project**, which seeks to develop a demand-driven, market oriented agricultural services system, based on partnerships between farmer groups, public agencies and private sector enterprises. Given the need identified by the World Bank around improving international market access for smallholders in Indonesia, both donors and the private sector should consider increasing activity in this critical focus area.

The **lack of funding for finance** could be due to with the fact that Indonesia is host to what the Asian Development Banks calls 'the largest and most successful microfinance operation in the developing world', the **Bank Rakyat Indonesia (BRI)** unit desa system. There are still calls for more expansion of BRI into rural areas, though the necessary elements for this will be largely driven through domestic policy and investments.

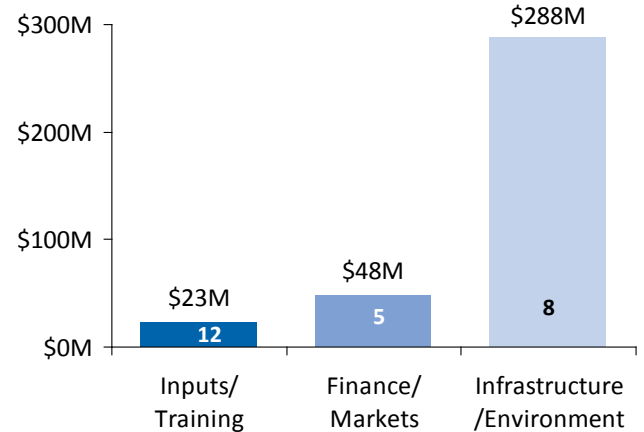
## The donor landscape

**Bilateral donors are the largest contributors to smallholder funding in Indonesia**, with development agencies from **Australia** and **Japan** being particularly active.

It is interesting to note that the largest single project captured in Indonesia is AusAID's funded **Eastern Indonesia Road Improvement** project: country infrastructure is more typically an area addressed by multilateral agencies. The need for major investment in Eastern Indonesia's road network is highlighted by IFAD: the area is home to the poorest rural communities in the country, many of which survive on subsistence farming.

In terms of multilaterals, in addition to the **World Bank** project discussed above, **FAO** is active with several projects in all three focus areas.

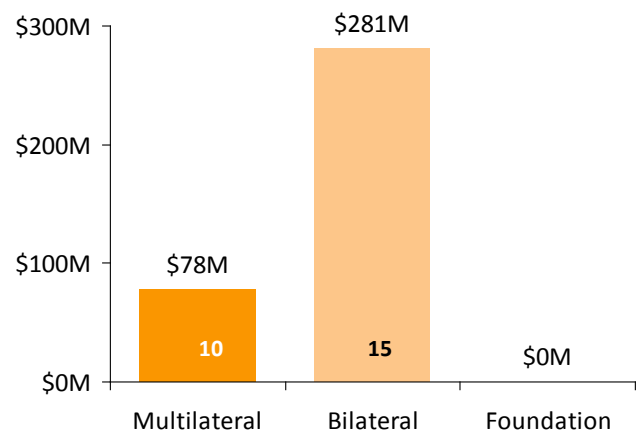
Funding & number of projects by main focus area



### Representative projects

- |  |   |  |
|--|---|--|
| <ul style="list-style-type: none"> <li>Farmer Empowerment through Agricultural Technology and Information, WB</li> <li>Rural Empowerment for Agricultural Development in Central Sulawesi, IFAD</li> </ul> | <ul style="list-style-type: none"> <li>Linking vegetable farmers with markets, ACIAR</li> <li>Farmer Empowerment through Agricultural Technology and Information, WB</li> </ul> | <ul style="list-style-type: none"> <li>Eastern Indonesia National Road Improvement Project, AusAID</li> <li>Participatory Irrigation Rehabilitation &amp; Improvement Project, JICA</li> </ul> |
|--|---|--|

Funding & number of projects by funder type



### Active funders

World Bank	AusAID	
FAO	JICA	