

Japan International Cooperation Agency (JICA)
National Development Planning Agency (BAPPENAS)

**THE SUPPORT PROGRAM
FOR
AGRICULTURE AND FISHERIES DEVELOPMENT
IN
THE REPUBLIC OF INDONESIA**

SECTOR ANALYSIS REPORT

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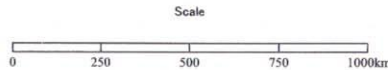
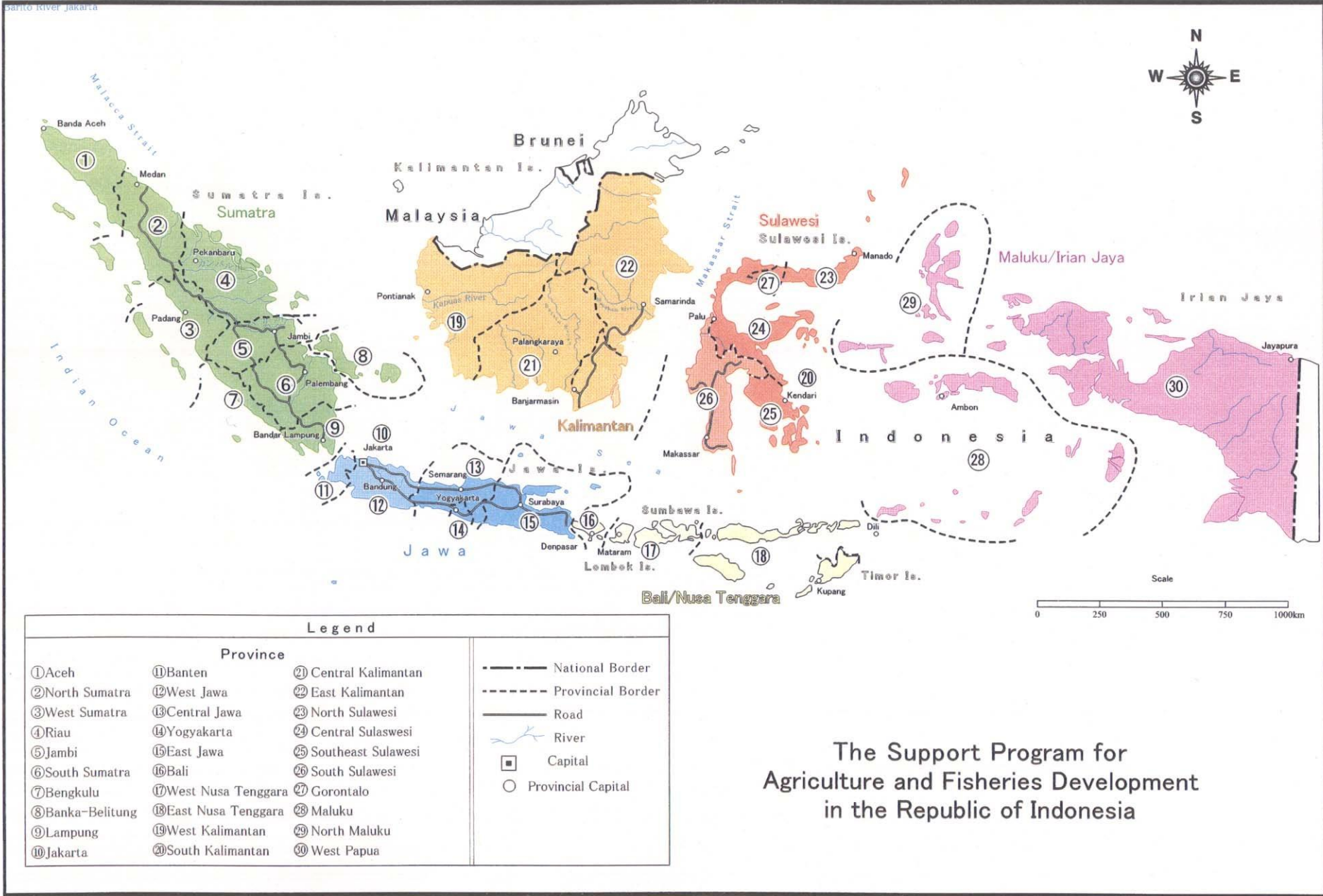
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Legend

Province			- - - - National Border - - - - Provincial Border ——— Road River Capital Provincial Capital
①Aceh	⑪Banten	⑳ Central Kalimantan	
②North Sumatra	⑫West Jawa	㉑ East Kalimantan	
③West Sumatra	⑬Central Jawa	㉒ North Sulawesi	
④Riau	⑭Yogyakarta	㉓ Central Sulawesi	
⑤Jambi	⑮East Jawa	㉔ Southeast Sulawesi	
⑥South Sumatra	⑯Bali	㉕ South Sulawesi	
⑦Bengkulu	⑰West Nusa Tenggara	㉖ Gorontalo	
⑧Banka-Belitung	⑱East Nusa Tenggara	㉗ Maluku	
⑨Lampung	㉙ West Kalimantan	㉘ North Maluku	
⑩Jakarta	㉚ South Kalimantan	㉙ West Papua	

The Support Program for
Agriculture and Fisheries Development
in the Republic of Indonesia

Summary**1. SOCIOECONOMIC CONDITIONS IN INDONESIA****Present Economic Condition**

- 1.1 The Indonesian economy has recovered from the Asian economic crisis in 1997, and by 2000 all the sectors of the economy achieved positive growth rates in the real term. However, the GDP per capita in 2000, which was equivalent to U.S.\$728, was still 63% of GDP per capita in 1996 (U.S.\$1,147). Some economic indicators, such as the re-appearance of inflation and the decreasing tendency of foreign and internal investments, show negative signs in 2001. The recovery of Indonesian economy is thus still underway.
- 1.2 The agriculture, forestry, and fisheries sector occupies 16.9% of the total GDP of the economy in 2000 (Rp.1.29 quadrillion), which is the second largest share, following that of the manufacturing sector (26.0%). This sector employs about 45% of the total working population. Export from the sector, including processed goods, was valued at U.S.\$7.4 billion in 2000, which is equivalent to 16% of the country's total export earnings of U.S.\$62.1 billion. The sector plays an important role in the Indonesian economy, producing 16.9% of the GDP, providing employment opportunities and earning foreign currency. However, it should be recognized that the sector is performing with low economic growth and facing a number of difficulties, as described in Chapter 3 in this report.

Present Financial Situation

- 1.3 In analyzing the state finance of Indonesia, the major issues are 1) external public debt, 2) external private debt, 3) domestic public debt, 4) scarce lack of subsidies, and 5) financial decentralization. The total amount of the external public and private debts was U.S.\$146.7 billion at the end of December 2000, which exceeded the GDP in 2000. With the cutoff of subsidies, the cost of fuel will increase, raising bus fare and the gas rate. In the decentralization of the finance, the critical issue is whether the local government can efficiently use authority and funds given by the decentralization policy. Moreover, there is discourse over their capability of receiving and managing loans from international agencies and donors. Facing the serious problem of external debts, the GOI plans to reduce the amount of foreign loans. These serious economic and financial conditions in Indonesia force the GOJ to consider effective ways to cooperate with the country.

Present Condition of Poverty

- 1.4 The population below the poverty line rapidly declined between the mid-1970s and 1996, one year before the economic crisis. In 1996, the number of poor was 22.5 million, which represents 11.3% of the total population in Indonesia. But the Asian crisis had a negative impact on the people: the poor population increased up to 37.5 million, 18.2% of the total population. From the food and

agricultural viewpoints, the expansion of income differentials between urban and rural areas, low fulfillment of basic human needs such as education, nutrition and medical services and incomplete basic infrastructures are deemed to be major causes for the poverty. Malnutrition, which can be attributed to poverty, is another problem, as can be seen in the high mortality rates of infants and maternity. Rural development is clearly of great importance as a measure for poverty alleviation.

Present Situation of Decentralization

- 1.5 With the enforcement of two laws in January 2001, decentralization is in progress of implementation. Under these laws, the major functions of the central government are limited to five fields (i.e., international relations, national defense/security, justice, finance and religion) and other fields such as national development planning at the macro level, development management policies and natural resource management. Other authorities have largely been transferred to districts (Kabpatens) and cities (Kota). Accordingly, it is required that regional promotion and development be implemented by the initiative of regions based on its diversity, not through central initiation as in the previous system.
- 1.6 With decentralization, a number of public servants, facilities, and archives have been transferred from the central government to regional ones, and this transformation was largely completed by September 2001. With these turnovers, almost 2 million of the public servants were transferred to the regional governments. While the transferal of the facilities and public servants has been conducted smoothly, there are several problems such as the excess number of the personnel in the regional governments and incapability of the local government to conduct various services. Moreover, there is the inconsistency between the Law No. 22 "Regional Governance" and other regulations related to decentralization, resulting in the complication of implementation in the aspects of institution and policy.
- 1.7 Above all, the capacity building of local staffs is considered as the bottleneck in the process of decentralization, thus resulting in inefficient and ineffective provision of local governments' services. In the services provided by agriculture and fisheries sector, the followings major issues are to be considered.
 - 1) The level of services for extensions is diverse between the respective districts, as they perceive different needs for and importance of agricultural extensions according to their development strategies. In this situation, the MOA is seeking a system that provides rational extension services with nation-wide balance and standard. In addition, some facilities managed by the Ministry have been transferring to the local government in the fields of research and agricultural education. In some cases, O&M of these facilities are affected by insufficient budget allocation.

- 2) For O&M of irrigation facilities, relevant laws and regulations were amended in 2001 for to hand over to the water users association, and local government regulations are under preparation.
- 3) As for fishery, the MMAF has formulated the government policy for marine and fisheries resource management. However, most of the local governments are not able to allocate their budget for the implementation, and difficult to implement the policy.

Economic Globalization

- 1.8 With the establishment of the AFTA on January 1, 2002, GOI is to take part in the regional agreement of free trade. Under the agreement, known as the CEPT scheme, the ASEAN members plan to reduce tariff rates by 0-5% by 2003. Furthermore, the AFTA aims at removing all tariffs in the agreement region by 2010 (for new members of Cambodia, Laos, Myanmar, and Vietnam, by 2015).
- 1.9 In addition to the AFTA, there are other regional and global agreements, which involve Indonesia (i.e. those based on the APEC and WTO regimes). The country is therefore towards globalization of the economy. The economic globalization requires GOI to eliminate trade barriers directly, and to indirectly gain comprehensive competitiveness in production, processing, and marketing for strategically significant sectors. This applies to the agriculture and fisheries sector of the country.

2. SECTOR ANALYSIS

Agriculture Sector

- 2.1 As regards the land use, the critical issues are illegal cultivation and unplanned conversion of land area. Illegal agricultural activities are observed in some estate crop areas and forest reserves. Although illegal cultivation has been reported before decentralization, this cultivation is expanding under the process of decentralization. Furthermore, over-population and leftover farm, etc. are difficult subjects in relation to land use. Unplanned land diversion is a complex problem from the viewpoints of stable supply of food and environmental conservation. In addition, the economic gap between urban and rural areas is expanding. These social circumstances in turn have a major influence on the social environment of rural areas. At present, in some provinces, the BAPPEDA plans the land use. In reality, however, the use is not consistent with the plan. Therefore it is necessary to rehabilitate the land law and other relevant laws and regulations, and also promote implementation of a systematic land use plan that operates adequately. In terms of promotion of land use plan, it is necessary to establish harmonized countermeasures, considering sustainable agricultural development, natural environment conservation, etc. and the social environment concerning population issues, etc.

- 2.2 With regard to agricultural production, it should be noted that the low farm-gate prices and the high prices of inputs resulting from the removal of the subsidies make it difficult to ensure profitability from agriculture. Relating this, the increasing rates of a unit yield of main crops (e.g., rice, soybeans, cassava, and sweet potato) have been low in recent years. Future development should focus, therefore, on 1) promoting the right crop for the right land with the introduction of cash crops in order to ensure profitability; 2) the dissemination of adequate technologies and provision of access to credits; 3) improving the quality of agricultural commodities with the attention to various practices, e.g., the use of agrochemical and the implementation of IPM, sustainable agriculture and environmental conservation; and 4) ensuring cross-sectional cooperation in the MOA for support services such as research and extension, credit, and marketing.
- 2.3 The livestock sector in Indonesia can be divided into two types, namely, the local resources based small-scale industry, and the imported feed and breeding stock based livestock industry (including the large scale commercial-based industry). The large-scale industry, which relies on imported inputs, suffered during the economic crisis due to the high price of imported feed material. In the light of the above situation, it is necessary to promote small holder livestock development based on local stock raising and feed with the objectives of vitalization of rural economy and the alleviation of poverty. Subjects for promotion of local resources based livestock industry are 1) shortage of feed resources for livestock, particularly in Java, 2) inadequacy of the animal health system, and 3) insufficient livestock production and management technique.
- 2.4 Of the agricultural infrastructures, irrigation facilities are the most important for stable food supply. In Java, 30,000 to 50,000 ha of irrigated paddy fields are annually converted to urban areas or industrial areas. In off-Java, the same process is reported in the surrounding areas of large cities. With decentralization, the O&M of irrigation facilities have been handed over to the regional governments of provinces, districts, and cities. However, regional governments are unable to ensure the proper functioning for O&M due to deficiencies in institutional systems, capable staff and budget. This prevents equitable distribution of irrigation water at tertiary block level, and farmers are not able to make use of the irrigation water. Consequently, farmers are not willing to pay irrigation service fees, and WUAs have no financial resources to enable proper management. This situation, in turn, leads to insufficient O&M, resulting in a vicious cycle which gives rise to the mal-functioning of irrigation facilities and increased cost of rehabilitation. Other reasons that WUAs are not active are the lack of training system, low organizational functionality, and non-transparency of financial operation. The subjects to be considered in the future are 1) the establishment of mechanism at regional government level for proper rehabilitation and O&M works for the existing irrigation facilities, 2) review of O&M systems together with formulation of a practical rehabilitation plan, 3) the improvement of

- irrigation system with the initiative of beneficiaries, 4) the promotion of small-scale irrigation development in rural areas with low rainfall and low productivity, and 5) the prevention of the conversion of irrigated paddy fields.
- 2.5 With the aim of transferring the O&M works at the tertiary block level to WUAs for the efficient use of water and lessening the financial burden of O&M, GOI formulated the IOMP in 1987. However, the result of its implementation has not been to the government's satisfaction in many irrigation schemes, and progress with the establishment of WUAs has been slower than the government's expectations. Countermeasures against these difficulties are 1) training local government staff and other stakeholders in order to improve their technical and management ability for O&M; 2) the establishment of a mechanism for the rehabilitation of laws and regulations on irrigation development and O&M works; 3) the formulation of a proper O&M system and the promotion of transfer of irrigation system to WUAs; and 4) strengthening the WUAs.
- 2.6 The analysis for the marketing of agricultural products was conducted for each product, covering all stages of distribution from the farm gate to consumers. As a result, the subjects for development are as follows. 1) The wholesale markets of agricultural products are generally old, congested and unhygienic, in addition to the daily occurrence of dead stock, all of which increases post-harvest losses. Thus, hygienic and efficient management of the market is needed. 2) As many constraints exist to the realization of transparent trade and fair price formation, the effective institutional framework governing wholesale markets and relevant distribution systems need to be thoroughly reviewed and improved. 3) Farmers have difficulty in accessing market information. A wide-ranging and effective market information network should be established between farmers and consumers. 4) Many small-scale farmers rely on traders for support with funds and inputs, weakening their bargaining power. Collective marketing by farmers' group may be an option for improvement. 5) Sizable losses occur at every marketing stage, and accordingly full study needs to be conducted to clarify the situation for reduction of losses.
- 2.7 As regards the extension service, with decentralization each district plans and conducts its own policies. The subjects to be considered in the future are as follows: 1) to accurately evaluate the current situation and thus systematically re-formulate the framework for overall extension activities, with consideration given to decentralization; 2) to implement effective and efficient education and training given limited staffing and shortage of budget; and 3) to examine a) extension, education, training, and research systems to promote agribusiness and b) a mechanism to reflect needs from the village in education, extension, and research and development systems to develop sustainable agriculture in line with decentralization and other changes in rural environment.
- 2.8 There are two main types of credit, i.e., KKP and P4K. Compared to P4K, KKP offers a wider range of credit amounts. In principle, however, KKP applies only

to production activities in the agriculture and fisheries. Moreover, it takes a considerable amount of time to complete the procedure, and cases may arise in which credit is not available in time. On the other hand, P4K is the micro finance for various activities of marginal farmers and fishermen. However, the upper ceiling of credit amount in the initial year is around Rp.300,000, which is not sufficient for certain agribusiness. For the future, 1) financial schemes for initial investment and operation funds for agribusiness should be urgently established; and 2) credit schemes to meet various needs in regional circumstances should be established with the introduction of further education and training for operation of those schemes.

- 2.9 With the initiative of the government, the KUD is requested to play the role of a business center in rural areas, occupying the monopolistic position in rural economy. However, it was found that many KUDs had limited capacity in the management of finance and facilities and that the service level did not meet the needs of local peoples. With this background, the President Decree No.18 was issued in 1998 to prohibit the monopolistic activities of the KUD and allow the people to establish a new cooperative (Koptan) with the minimum membership of 20 persons. Despite the increasing number of the newly-established cooperatives, most of them are still immature organizations without sufficient facilities and staff for management. Furthermore, due to the smallness of scale, they are neither able to enjoy scale merits in sale and purchase, nor to guarantee the quality standard and stock. For development in the future, it is necessary to clarify 1) the features of farmers' organizations such as KUDs, Koptans, Kelompok Tanis, and 2) the policy framework and actions for strengthening farmers' organizations. It is also necessary to 3) promote the understanding of the necessity and merits of cooperatives, and 4) to conduct agribusiness activities (purchasing farm inputs and marketing aspect including marketing information, processing and distribution of product) of cooperatives within the context of regional characteristics and with the positive participation of cooperative members.
- 2.10 Agribusiness includes activities ranging from input-oriented (or upstream) businesses such as seed production, fertilizer and the agricultural machinery industry to output (or downstream) activities such as marketing. The ministries relevant to the agribusiness are the MOA, the MMAF, the State Ministry of Cooperatives and SMEs, and the MOIT. The MOA is responsible for the production of agricultural raw materials; the MMAF for fishery raw materials; the State Ministry of Cooperatives and SMEs for farmers' and fishermen' organization; and the MOIT for the processing of agricultural and fishery raw materials. The subjects for development of agribusiness are 1) intensification of agribusiness intelligence, 2) improvement of regulatory and business environment, 3) the rehabilitation of credit scheme for SMEs, 4) the enhancement of micro-credit for small-scale farmers and fishermen, and 5) improvement of education and training system to develop human resources in local areas.

Fisheries Sector

- 2.11 The fisheries sector plays an important role in food balance in Indonesia, particularly with regard to protein intake. The annual production has increased from 3.16 million tons in 1990 to 4.89 million tons in 1999 (a 54% increase for the 10 years). The consumption has also increased from 2.32 million tons in 1991 to 3.66 million tons in 1999 (a 58% increase for the 9 years) with a rise in the per-capita consumption (of 38% during the 1991-1998 period). Thus the demand and supply of fishery products have been increasing, revealing the importance of the fishery in food balances.
- 2.12 With respect to policy and institution for fisheries development, 1) the responsibilities of central and regional government relating to fishery resources management following the decentralization must be clarified by law and institution. The central government then needs to prepare a guideline for fishery resources management implemented by province. 2) The guideline is important to clarify a national direction for guidance, enhance ability of regional autonomies' staff and prepare fishery resources management system in coastal communities. 3) It is necessary to strengthen an institution and system for controlling fishing. Moreover, 4) it is important to establish a legal framework and regulations for measures necessary for management and technical support on the sustainable development of aquaculture. 5) With regard to aquaculture, public sector should take necessary measures such as restriction of area for the culture, number and size of setting net cage, allowable number of fish in the cage, licensing, controlling of feeding and prescribing, system for environmental monitoring and expenditure of necessary social cost. 6) As for extension service given to aquaculture farmers, technological and managerial know-how enables them to produce high quality fish with low cost and 7) preparation of guideline for aquaculture, which shows rearing techniques and reduces bad effects to natural environment, is also indispensable.
- 2.13 As regards the fishery extension, the extension workers are now employed by the respective districts as a result of decentralization. Hence, fishery extension services depend on the financial situation and the development priorities in each district. However, it is necessary, to a certain extent, to standardize the operation guideline, the content of services, and the level of technical skills of extension workers. Thus, it will be important for the MMAF to establish directions for the education of fishery extension workers in the district, so that practical extension systems will be maintained. In addition, in the field of fishery education, it is a crucial to secure sufficient number of teachers having capabilities to deal with the curriculums, which MMAF has improved in accordance with social needs for resources management, environmental conservation, rural development in coastal and remote islands, improvement of the quality of fishery products, and hygiene management. It is also important to provide academic teaching materials, teaching tools and equipment for the implementation of new fishery education.

- 2.14 In some areas, fishery resources' utilization is above the maximum sustainable yield, especially in Western Indonesia, because the number of artisanal fishermen and fishing efforts has been increasing. To cope with the problem, it is necessary to 1) prepare a guideline by central government for fishery resources management and the directions for the management of regional and local governments; 2) support community-based fishery resources management from the aspects of both software (e.g., information and financial services) and hardware (e.g., improvement of fish landing places) in order to promote fishermen's organizations and vitalize their economic activities; 3) give priority to the community development of remote islands in Eastern Indonesia, where many poor fishermen live without alternative income sources other than fishing; and 4) instruct and educate fishermen on basic technology of on-boat fish handling and the relationship between fish quality and sanitary improvement and economic value.
- 2.15 For freshwater aquaculture, it is generally difficult to run the aquaculture business in a sustainable manner, since many fish farmers are poor and artisanal with limited capital and skills. Therefore, it is necessary to support for organizing fish farmers and strengthening extension system. Moreover support systems are needed for aquaculture such as extension services, micro credit, etc. In mariculture, seaweed and growing-out are major productions at present. Though seed production technology of groupers has been gradually secured, there are still problems in rearing techniques harmonizing with environment and business operational technology. Therefore, it is necessary to prepare legal framework for utilizing open water in sustainable manner. The government target for expansion of mariculture is excessive. More detailed studies are needed from the viewpoints of economy (e.g., market demand and supply of finance, policy and institutional systems, and technology (e.g., aquaculture management and rearing technique. Finally, the management of public seed production centers for freshwater fish was transferred to provinces and districts due to the decentralization. However, many centers are not running well because of shortages of finance and human resources. It is therefore necessary to review the necessities of these centers and restructure of the systems for operation and maintenance.
- 2.16 Quality control, processing and distribution are important aspects of fishery production. The basis of the distribution of fishery products is fresh fish. Accordingly, enlightenment and education are necessary for artisanal fishermen, trainers, retailers, etc., in such area as improved fishing techniques and proper handling with ice. As an incentive to carry out these measures, support programs that produce benefits of using the landing site and providing the environment for the investment are necessary. Other subjects include the improvement of the distribution system for fishery products by reviewing the role and function of the local wholesale market.

- 2.17 Finally it is necessary to encourage and support the establishment of fishermen's organizations, and give them guidance for proper organizational and financial management. It is also required to increase the number of local financial institutions and to provide various credit schemes in order to enable artisanal fishermen to get more financial resources. It is also necessary to assist fishermen in diversifying income sources through fishermen's organizations, so as to reduce their heavy dependence on traders.

3. ECONOMIC DEVELOPMENT PLANS AND PRESENT CONDITIONS OF INTERNATIONAL COOPERATION FOR THE AGRICULTURE AND FISHERIES SECTOR

- 3.1 In the GBHN (2000-2004), the principal direction for agriculture and food security in Indonesia is stated as developing a food security system that is based on the diversity of food resources, social institutions and local cultures as a part of the effort to ensure the availability of food and nutrients in adequate quantity and quality at affordable prices without disregarding the incomes and welfare of farmers and fishermen. In the PROPENAS, the reinforcement of good governance with the transparency and democratization of politics, the participation of people and decentralization has received the highest priority as an issue to be tackled. In this background, the role of the government is to focus on *the enactment and facilitation of laws and regulations* for those implementing projects. And the services provided by the government are to be focused concentrically on market institutions, technology development, extensions, finance, and the development of important natural resources.
- 3.2 The international donors such as ADB and the World Bank have changed their approach to the development of Indonesian from the approach to a particular sector (e.g., agriculture and fisheries) to the sector-wide approach according to a particular issue (e.g., poverty alleviation, natural environment conservation and rural development). For instance, in the Country Operational Strategy 2001-2005 prepared by the ADB, the focuses are on 1) creating and strengthening basic institutions by improving the many relevant areas in the governance; 2) supporting the sustainable recovery and pro-poor growth by enabling and encouraging private sector development; 3) improving regional equity through balanced regional development, especially targeting the rural areas and less developed islands; 4) investing in human and social development and enhancing the role of women; and 5) strengthening environment management to ensure sustainable use of natural resources and prevent adverse environmental impact associated with development. Thus although the agriculture and fisheries sector is related to these areas, the approach is to social development, poverty alleviation, and natural environment issues.

4. EXAMINATION OF COOPERATION COMPONENTS**Basic Concept of Japan's Cooperation for the Agriculture and Fisheries Sector in Indonesia**

- 4.1 In recent years, the international environment surrounding Indonesia has been changing rapidly. The international agreement under the WTO regime and the regional one under the AFTA have brought about economic globalization with the tendency of making the role of the government relatively small and that of the market economy more important in achieving development. On the other hand, with the domestic change of decentralization, the local government in a district or city has come to play an important role in planning and implementing policy in the agriculture and fisheries sector. Moreover, in line with this global movement for poverty alleviation, Japan has set the issue of poverty as an important target in its medium-term cooperation policy. The GOI also gives priority to the alleviation of poverty in PROPENAS, with the view that the development of rural farming and fishing villages leads to the reduction of the poverty as well as to economic growth (An Approach to Macro Food Policy, BAPPENAS, 2001).
- 4.2 With this background, the Support Program formulates the cooperation components for the five cooperation programs (i.e., 1) Program for Improving the Institution and Production Support System of Agriculture, 2) Program for Improving the function of Agricultural Infrastructure and Sustainable Operation and Maintenance, 3) Program for the Sustainable Utilization of Fishery Resources, 4) Program for Promoting Community-based Economic Activities in Agriculture and Fisheries, and 5) Program for Improving and Strengthening Markets for Agriculture and Fishery Products) set by the Assistant Strategy Formulation Study with particular reference to the following six points.
- 1) As the Action Plan is to be implemented for the three years from 2003 to 2005, the priority is put on projects that are in urgent need of implementation.
 - 2) Taking into account the policy that the GOI restrains new foreign loans because of financial reconstruction, it is necessary to carefully examine economic and financial sustainability of new investment in large-scale infrastructure development.
 - 3) From the viewpoint of the effective use of ODA, issues that have the possibility of competing with the private sector (e.g., estate crop production and export promotion) will be excluded from the Action Plan.
 - 4) Cooperation in the institutional aspect is of great importance, so that the support for production techniques and infrastructures that Japan has provided so far will be effectively utilized.
 - 5) It is indispensable to prioritize cooperation components from various options and attain the effective combination of the financial and technical cooperations in order to maximize the potential effects of the assistance with Japan's limited resources for ODA.

- 6) To avoid the overlap of cooperation with other donors, it is necessary to find appropriate contents and target areas for the assistance.

Components of the Program for Improving the Institution and Production Support System of Agriculture

- 4.3 In order to realize Stable Food Supply and Improvement of Nutrition, the issues to be tackled encompass not only the improvement of production technique but also the integrated function of various policies and institutions, including macroeconomic policy for finance and financial systems, human resource development, credit schemes, agricultural extension, and capacity building for farmers' organizations. In globalization in the international economy and decentralization in Indonesia, it is of critical importance to establish consistent policy and institutions in order to link macro policies conducted by the central government (e.g., policies for land systems and stable domestic production, and tariffs and subsidies to enable balance with imports) with the agricultural development plans formulated and conducted by local governments at farm level.
- 4.4 At present, it is generally recognized that some progress has been made in the production technique for food crops in Indonesia (Agricultural Development Plan, Ministry of Agriculture). The next step is to utilize the effects of this support with the improvement of agricultural policy and institutions.
- 4.5 In light of ODA, the sectors that have relatively greater needs for production support are those of horticulture and livestock rather than those of estate crops, in which the private sector is engaged. Taking into account 1) the fact that the protein is the second most important nutrient (following calories) for the improvement of human nutrition and 2) the necessity for raising the income of small-scale farmers in order to alleviate poverty, development of the livestock sector is an urgent requirement. Considering this reason and the above information, the following two components have been set with respect to the cooperation program.
- 1) Support for policy and various institutional systems in line with the decentralization policy
 - 2) Development of livestock industry utilizing local resources

4.6 Support for Policy and Various Institutional Systems in Line with the Decentralization Policy

This component aims at supports for policy and institutions to integrate the effects of macro policies conducted by the central government with those of agricultural development plans formulated and conducted by local governments at farm level. Especially, in order to make the best use of previous cooperation provided by Japan, the focus is on strengthening farmers' origination and education and training.

4.7 Development of Livestock Industry Utilizing Local Resources

In Indonesia, the rise in people's incomes, the diversification of diet and the growth of the population have led to an increase in demand not only for vegetable protein but also for animal protein. The development of the livestock sector in Indonesia is based on two purposes: a) diversification of farm activities and improvement of the income level of farmers and b) the stable and safe supply of livestock products to the nation. The livestock sector in Indonesia is divided into two types, the local-resources-based industry, and the imported-input-based livestock industry. The former is to be developed by the private sectors, and thus be out of target by the ODA. Rather the development of the latter type of livestock industry, which encompasses the small-scale farmers, is of great importance to vitalize the rural economy, including agribusiness

Components of the Program for Improving the Function of the Agricultural Infrastructure and Sustainable Operation and Maintenance

- 4.8 The irrigation area has been expanded under the initiative of the government in order to attain foodstuff self-sufficiency. However, trade liberalization has given rise to serious price competition between local and imported rice. Further, other economic sectors are showing signs of economic recovery from the currency crisis, and this recovery has been improving the people's purchasing power. Under such circumstances, the public focus on food policy is shifting to stable food supply rather than food self-sufficiency. In this regard, it is necessary to carefully and seriously examine the irrigation development, taking into account the food policy based on the future supply and demand of food.
- 4.9 Regarding the existing irrigation schemes, there are various subjects to be focused upon. They are: the deterioration of irrigation facilities, the malfunction of irrigation facilities due to poor O&M caused by the low progress of hand-over to the WUA for the reduction of budgetary burden, the transfer of irrigated land to other land use on the populous Java Island, and the abandoned irrigated area on the outer islands.
- 4.10 Taking the above situation into consideration, the priority for Japan's ODA is given to institutional development for O&M of irrigation facilities, which had been expanded under assistance by donors including Japan. In this regard, the following three components have been selected for the irrigation sector:
- 1) Supporting the promotion of turnover of O&M for irrigation facilities to WUAs and local government.
 - 2) Strengthening of WUAs and local government for the above-mentioned purpose.
 - 3) Rehabilitation of existing facilities and development of small-scale irrigation facilities for the above-mentioned purpose.
- 4.11 For new development and rehabilitation in the medium or larger scale irrigation schemes, their O&M will be taken into consideration as an essential component.

4.12 Supporting the Promotion of Turnover of O&M systems for Irrigation to WUAs and Local Governments

O&M and rehabilitation are fully dependent on the government budget, and this has become a financial burden on the government. Under these circumstances, the government issued the Irrigation O&M Policy in 1987 to hand over the O&M of irrigation facilities to WUAs and local government, in order to bring about sustainable O&M and efficient water supply through charging irrigation service fees to water users.

Since the late 1980s, donors have supported the implementation of the above policies for the institutional development for O&M, the formation of WUAs, the collection of irrigation service fees, and the handing over of O&M at project basis. In spite of such efforts, the results have been far worse than expected. In order to improve the situation, the government has since 1999 started to strengthen the “institutional framework for O&M” with the aim of “improving irrigation management policy, institution, and regulation”, under the support of the WATSAL by the World Bank. The local government mechanism, which is in the process of decentralization, has been undergoing reorganization for the rehabilitation and O&M of irrigation facilities under the institutional framework indicated by WATSAL. In this regard, along with progress in strengthening the above institutional framework, it is necessary to support the handing over of irrigation O&M to WUAs.

4.13 Strengthening of WUAs and Local Government for the above-mentioned Purpose

High economic growth and population increase have brought about an expansion in water demand in urban and industrial sectors. This has prompted the government to shift the focus on water resources from being a natural resource regarded as a social asset to being an economic resource. Since irrigation uses the largest volume of water, the efficient use of water and transparent operation of facilities are required more than ever in the irrigation sector. And the capacity building of local government is required for strengthening of WUAs.

Due to the diversity of ways to manage irrigation water and the previous protections of the government, farmers have deeply acquired the rather stereotypical mindset that “the government will always secure irrigation water without participation in O&M”. This mindset does not enable efficient use of water and appropriate O&M of irrigation facilities through the establishment of autonomous WUAs. In order to improve such a situation, it is necessary to organize WUA, suitable for local conditions, and capable of managing the organization in a democratic and sustainable manner as well as managing the finances with transparency and soundness, through changing the mindset of farmers.

4.14 Rehabilitation of Existing Facilities and Development of Small-scale Irrigation Facilities for the Above-mentioned Purpose

After the construction of irrigation schemes, facilities and structures gradually deteriorate, and the lack of proper O&M of irrigation facilities accelerates deterioration of their functions.

There is a vicious cycle of inadequate O&M and low collection of irrigation service fees in irrigation management. In such a situation, WUAs are unable to conduct O&M in a sustainable and efficient manner. Therefore, countermeasures are required to remove this vicious cycle before the handing over of irrigation management and O&M to WUAs. Countermeasures include revision of irrigation area to an appropriate size, small-scale water resource development, selection of structure design manageable for farmers and the rehabilitation of deteriorated facilities, in order to enable WUAs to carry out O&M of the irrigation schemes in efficient and effective manner.

Components of the Program for the Sustainable Utilization of Fishery Resources

4.15 The development subjects, identified in Chapter 3, are broadly categorized into two major aspects, namely, resources management for sustainable fisheries promotion, and the supply of fishery products to the people at affordable low prices. These two aspects yield the following two components.

- 1) Cooperation in establishing the resource management system for sustainable development of coastal and inland open water capture fishery and fish culture
- 2) Promotion of coastal and inland captures fishery and fish culture for expansion of local consumption of fishery products at low prices

4.16 Cooperation in Establishing the Resource Management System for Sustainable Development of Coastal and Inland Open Water Capture Fishery and Fish Culture

In order to utilize the fishery resource in a sustainable way, it is necessary to unify the management system between the central and regional levels. Moreover, in managing the resources, the participation of stakeholders is prerequisite. The community-based resources management that involves the groups of fishermen, fish distributors, and others is expected. Hence, assistance is necessary to establish policies and regulations for fishery resources management and control based on decentralization, to prepare guidelines for deciding measures on resources management corresponding to the particular regional situation, and to train leading personnel such as administrators in provinces and districts.

4.17 Promotion of Coastal and Inland Capture Fisheries and Fish Culture for Expansion of Local Consumption of Fishery Products at Low Prices

The promotion of capture fishery and aquaculture in areas with the high potential

for development is necessary to increase local fish consumption and the intake of protein by supplying cheap fishery products. In addition, it is important to decrease production losses in natural resources and to utilize them efficiently from the viewpoint of the promotion of the protein intake necessary for nutritional improvement and the sustainable utilization of fishery resources. Moreover, from an aspect of poverty alleviation, the promotion of capture fishery and aquaculture shall contribute directly to increasing the income of fishermen.

Components of the Program for Promoting Community-based Economic Activities in Agriculture and Fisheries.

- 4.18 This program aims to raise the income of farmers and fishermen through the vitalization of their villages, in order to alleviate poverty. Although there are various activities relating to agriculture and fisheries, the program will focus on the development of processing to add value to products, as well as on the creation of job opportunities, as the other aspects such as farm management and fishing have already been promoted by GOI.
- 4.19 With the sector analysis it was found that the issues to be tackled are 1) the construction of information network systems with regard to the partners, markets, techniques, funds, and materials for processing, 2) tax concessions, 3) the preparation of credit schemes for small and medium-sized enterprises, 4) the improvement and preparation of micro credits for small-scale farmers and fishermen, and 5) the development of human resources.
- 4.20 Based on these findings, the program sets up the cooperation components, namely 1) the encouragement of local processing industries for agricultural and fishery products, which includes the recommendations for i) the institutional framework for creation of investment incentives, ii) improvement and construction of information systems and iii) encouragement and strengthening of farmers' and fishermen's organizations to promote the local processing industry for agricultural and fishery product, and 2) support for income generation by poor people: promotion of micro credit schemes and recommendations and support for promoting and strengthening mutual-help organizations for farmers and fishermen.

4.21 Encouragement of Local Processing Industries for Agricultural and Fishery products

i) Recommendation for the Institutional Framework for Creation of Investment Incentives

In order to develop new local industries, a prerequisite is to prepare credit for small and medium-sized enterprises, which require some initial investment funds. Therefore, in vitalizing rural economy, support for the establishment of institutional concession as an investment incentive should be carefully examined, in order to develop agribusiness centering on local industries.

ii) Recommendation for the Information System

In order to promote investment as described above, it is also necessary to prepare the information system, including the construction of the information network with regard to the partners, markets, techniques, funds, and materials for processing.

iii) Encouragement and Strengthening of Farmers' and Fishermen's Organizations to Promote the Local Processing Industry for Agricultural and Fishery Products

In order to develop agribusiness, the MOA and MMAF have conducted micro-projects such as micro credit and community-based projects for groups voluntarily organized by farmers and fishermen (e.g., Klonpokku). Fundamental education to foster a awareness of participation, to cultivate a sense of identity and responsibility, and so on is required, therefore it may take a long time until they are functioning well as business units. To promote this, technical support on encouragement and strengthening of farmers' and fishermen's organizations is indispensable.

4.22 Promoting income-generating activities for poor people, it examines the recommendations and cooperation for the promotion of credit systems and for establishing and strengthening mutual -aid systems for farmers.

The businesses of most farmers and fishermen are small in scale, and generally lack the channels and financial resources that are necessary to manage all activities from production through to marketing. Therefore, there are cases in which farmers tend to depend on support from private business people such as middlemen and rice millers, in order to procure farm inputs to be required. As a result, it is highly likely that the farmers will end up selling their products at the low prices requested by the private business people. For fishermen, too, it is difficult to individually procure production tools, such as fishing boats, nets, engines, as well as the materials to preserve the freshness of fish, such as ice and container boxes. They are often required to sell their catches at unfair prices.

In order to change this situation, the GOI have been implementing various micro credit programs at low interest rates. In general, however, those micro credit schemes tend to limit the credit purposes, periods and amounts, and often work as constraints against those that use them. Moreover, the group-guarantee system adopted in these programs is faced with financial management problems on the borrowers' side, such as cooperatives etc., with a lack of understanding on credit system among their staff as well as the members that leads to unclear handling of the credit repayment process and money usage.

Addressing this problem requires assistance for small farmers and fishermen so that they may have sufficient capability to properly utilize these micro credit

programs. On that account, it is considered important to allocate a sufficient time period for third party supporters, such as NGOs, to enable facilitation of farmers and fishermen actively taking the initiative in managing their groups, together with the provision of practical training courses areas such as organizational and financial management, etc.

Components of the Program for Improving and Strengthening Markets for Agricultural and Fishery Products

- 4.23 As a result of the sector analysis, the improvement in the marketing of agricultural and fishery products have been summarized into the following five points.
- (i) To realize hygienic and efficient market management
 - (ii) To establish an effective legal framework governing the market for realization of transparent trade and fair price formation
 - (iii) To facilitate access of farmers/fishermen to market information
 - (iv) To realize collective marketing by farmers' organizations
 - (v) To clarify and improve the situation of post-harvest losses
- 4.24 Out of five points above, item (iv) is to be studied together with farmers' organization in the Program for Improvement of Institutions and Production in Agriculture. Study of the item (v) is to be considered on a medium-/ long-term basis, since the target ranges vary widely from farms through to the market and distribution. Items (i),(ii) and (iii) are to be taken up for study in this program, focusing on the market. Accordingly, the components under this program are to be as follows:
- 1) Recommendation on the improvement of market institutions for agricultural and fishery products
 - 2) Recommendation on the establishment of basic market information systems for agricultural and fishery products
- 4.25 Recommendation on the Improvement of Market Institutions for Agricultural and Fishery Products

Existing wholesale markets of agricultural and fishery products are generally superannuated, congested and not kept hygienic. In addition to this, there is the daily occurrence of dead stock, and increasing post-harvest losses. No license system for wholesalers, no obligation to report dealing data, face-to-face negotiations and incomplete quality standards are constraints on transparent trade and fair price formation. The wholesale markets are centered on distribution between producers and consumers, aiming at the smooth and stable supply of commodities (mostly perishables) through fair and prompt transactions. Improvement of the wholesale market, therefore, is imperative. The effective legal framework governing the market needs to be thoroughly reviewed and improved. The produce collection system, based on collective marketing by

farmers' organizations or the equivalent, is an important prerequisite for efficient operation of the markets.

4.26 Recommendation on the Establishment of Basic Market Information Systems for Agricultural and Fishery Products

The market, positioned in between producers (farmers/fishermen) and consumers (product users), should play the important role of information exchange between the two. However, this is not sufficiently in place as of yet. Farmers have difficulties accessing market information. Price data by commodity are regularly collected by central and regional government officials, and released publicly through the media. However, this information is not fully utilized due to the drawbacks in the quantity, quality, promptness and practicality of the information. Improvement needs to be carried out to establish effective and wide-ranged market information systems for revitalization of the market. Access to information required for promotion of agribusiness should also be facilitated.

THE SUPPORT PROGRAM
FOR
AGRICULTURE AND FISHERIES DEVELOPMENT
IN
THE REPUBLIC OF INDONESIA

SECTOR ANALYSIS REPORT

LOCATION MAP
SUMMARY

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CURRENCY

U.S. \$ 1.00 = Rp.9,380

(as of December 2000)

(U.S. \$ = United States Dollars, Rp. = Indonesia Rupiahs)

LIST OF ABBREVIATIONS

AARD	Agency for Agricultural Research Development
ACIAR	Australian Center for International Agricultural Research
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AIAT	Assessment Institute for Agricultural Technology
AMDAL	Analysis for the Impact of Environment (<i>Analisa Mengenai Dampak Lingkungan</i>)
APBN	National Government Budget (<i>Anggaran Belanja Pendapatan Nasional</i>)
APBD	Local Government Budget (<i>Anggaran Belanja Pendapatan Daerah</i>)
APEC	Asia-Pacific Economic Cooperation
APP	Agricultural Extension Academy
ASEAN	Association of Southeast Asian Nations
AUSAID	Australian Agency for International Development
BAPPEDA	Provincial Development Planning Agency (<i>Badan Perencanaan Pembangunan Daerah</i>)
BAPPENAS	National Development Planning Agency (<i>Badan Perencanaan Pembangunan Nasional</i>)
BIMAS	Mass Guidance Program (<i>Bimbingan Massal</i>)
BIPP	Agricultural Extension Information Centre (<i>Balai Informasi dan Penyuluhan Pertanian</i>)
BPP	Extension Office (<i>Balai Penyuluhan Pertanian</i>)
BPS	Central Bureau of Statistics (<i>Badan Pusat Statistik</i>)
BRI	State Owned People's Bank (<i>Bank Rakyat Indonesia</i>)
BULOG	National Logistics Agency (<i>Badan Urusan Logistik</i>)
CEPT	Common Effective Preferential Tariff
CRIFI	Central Research Institute of Fisheries
CSIRO	Cooperative Scientific and Industrial Research Organization for Australia
DAC	Development Assistance Committee
DG	Directorate General
DGCF	Directorate of Capture Fishery
DGMFRC	Directorate General of Marine and Fishery Resources Controlling
DINAS	Service Office for Agriculture and Industry & Trade, Kabupaten/ Kotamadya/ Kota level

DOLOG	Regional Logistic Agency (<i>Depot Logistik</i>)
EEZ	Exclusive Economic Zone
FAD	Fish Aggregation Device
FAO	Food and Agriculture Organization of United Nations
FY	Fiscal Year
GBHN	Guidelines of the State Policy (<i>Garis Besar Haluan Negara</i>)
GKSI	National Dairy Federation
GOI	Government of Indonesia
GOJ	Government of Japan
GT	Gross Tonnage for Vessels
GTZ	German Technical Cooperation
HACCP	Hazard Analysis and Critical Control Point Evaluation
HP	Horse Power
IEEZ	Indonesian Exclusive Economic Zone
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IMO	International Maritime Organization
IMPR	Irrigation Management Policy Reformation
IOMP	Irrigation Operation and Maintenance Policy
IPM	Integrated Past Management
IUP	Fishing Business License
ISF	Irrigation Service Fee
JICA	Japan International Cooperation Agency
JBIC	Japan Bank for International Cooperation
KIMBUN	Industrial Tree Crops Community Region (<i>Kawasan Industri Masyarakat Perkebunan</i>)
KIMPRASWIL	Ministry of Settlement and Regional Infrastructure
KKP	Food Security Credit (<i>Kredit Ketahanan Pangan</i>)
Koptan	Farmer's Own Cooperative (<i>Kooperasi Tani</i>)
KUB	Kelompok Usaha Bersana
KUD	Village Cooperative Unit (<i>Koperasi Unit Desa</i>)
KUD MINA	Fishery Cooperation
KUT	Farm Credit (<i>Kredit Usaha Tani</i>)
LPT-Indak	Lembaga Pembinaan Terpadu Industri dan Dagang Kecil
MMAF	Ministry of Marine Affairs and Fisheries

MOA	Ministry of Agriculture
MOHA	Ministry of Home Affairs
MOIT	Ministry of Industry and Trade
NPFS	National Programme for Food Security
NGO	Non Governmental Organization
NPFS	National Program for Food Security
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
O&M	Operation and Maintenance
PBIS	Project Brief Information Sheet
PEMP	Economic Empowerment of Coastal Community
PII	Public Institutions and Infrastructures
POLAIRUD	Patrol Vessels of the Navy and Marine Police
PPNS	Civil Office Investigator
PPPPK or P4K	Ministry of Agriculture's Micro-Credit Project for Farmers and Fisherfolk (<i>Proyek Peningkatan Pendapatan Petani-Nelayan Kecil</i>)
PROPENAS	National Development Plan (<i>Program Pembangunan Nasional</i>)
SEKNEG	State Secretariat (<i>Sekretariat Negara</i>)
SME	Small & Medium Enterprise
SPI	Fishing Letter/Document
SSN	Social Safety Net
SUB-DOLOG	DOLOG for a District (refer to DOLOG)
S/W	Scope of Work
TAC	Total Allowable Catch
UNCLOS	United Nations Convention for Law of Sea
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WATSAL	Water Sector Adjustment Loan
WTO	World Trade Organization
WUA	Water Users Association

CHAPTER 1 INTRODUCTION

1.1 Authority

This report has been prepared in accordance with the Scope of Work (S/W) for the Support Program for Agriculture and Fisheries Development (the Support Program) agreed upon between the National Development Planning Agency (BAPPENAS) of Indonesia and the Japan International Cooperation Agency (JICA) on the 8th of February in 2002.

1.2 Background of the Support Program

Japan has rendered a variety of technical assistance and financial cooperation for loan and grant-aid to Indonesia, as that country's top donor in the agriculture and fisheries sector. In order to cooperate more efficiently and effectively, it has been necessary to understand the changes in the economic and politic affairs in Indonesia. For this purpose, JICA conducted a Sector Assistance Strategy Formulation Study on the Agriculture and Fishery Sector (Assistance Strategy Formulation Study) in June of 2001. As a result of this study, the following two development issues and five cooperation programs were identified as the direction of Japan's cooperation in the agriculture and fisheries sector in Indonesia.

Development Issue	Cooperation Program
Stable Food Supply and Improvement of Nutrition	-Program for Improving the Institution and Production Support System of Agriculture and Fishery
	-Program for Improving the Function of the Agricultural Infrastructure and Sustainable Operation and Maintenance
	-Program for the Sustainable Utilization of Fishery Resources
Raising the Income of Farmers and Fishermen and the Vitalization of the Rural Economy	-Program for Promoting Community-based Economic Activities in Agriculture and Fisheries
	-Program for Improving and Strengthening Markets for Agriculture and Fishery Products

Given the results of this study, in October 2001, the Government of Indonesia (GOI) requested that the Government of Japan (GOJ) formulate an Action Plan and monitor its implementation. In response to this request, the GOJ decided to conduct the Support Program, and the S/W for the Support Program was agreed upon by the GOJ and the GOI on the 8th of February in 2002 (refer to Attachment 1).

1.3 Objective and Outline of the Support Program

1.3.1 Objectives of the Support Program

The objectives of the Support Program are to:

- (1) formulate the Action Plan for the above-mentioned cooperation programs through a sector analysis of the agriculture and fisheries sector and a review of the tentative direction of Japan's cooperation formulated by the Assistance Strategy Formulation Study; and
- (2) monitor the implementation of the Action Plan.

1.3.2 Target of the Support Program

(1) Target Area

Whole areas of the Republic of Indonesia

(2) Agencies Concerned

BAPPENAS is the coordinating agency. The other Indonesian agencies concerned are 1) the State Secretariat of the Bureau of Technical Cooperation (SEKNEG), 2) the Ministry of Finance, 3) the Ministry of Agriculture (MOA), 4) the Ministry of Marine Affairs and Fisheries (MMAF), 5) the Ministry of Settlement and Regional Infrastructure (KIMPRASWIL), 6) the State Ministry of Cooperatives and Small and Medium Enterprises, 7) the Ministry of Industry and Trade (MOIT), 8) the Ministry of Home Affairs (MOHA), and 9) the State Ministry of Women Empowerment.

(3) Target Scheme

All the schemes of the loan, grant-aid, and technical assistance projects under Japanese ODA from 2003 to 2005.

1.3.3 Scope of the Support Program

The Support Program conducts the sector analysis for the agriculture and fisheries sector, and formulate the Action Plan. It then revises the Action Plan, taking into account the information obtained by monitoring activities and changes in the socioeconomic conditions of Indonesia.

The sector analysis identifies the development issues of the sector based on the studies of socioeconomic conditions of that country, and clarifies the direction of Japan' cooperation. The Action Plan identifies draft of individual projects, based on the current direction of Japan's cooperation to the agriculture and fisheries sector in Indonesia from 2003 to 2005.

The Support Program is being carried out in two phases.

Phase 1, which started from May 2002 (the preparatory work in Japan) and lasts until the middle of December 2002 (the third field work in Japan), aims to carry out the sector analysis, and formulate the Action Plan and the Monitoring System through the agreement between Japanese and Indonesian sides. Phase 2, which will be carried out from 2003 to 2005, will i) revise the sector analysis for each year (from March to July) to obtain and understand updated information on the agriculture and fisheries sector; ii) collate and analysis the information from monitoring activities for the projects of the Action Plan; and iii) revise the Action Plan in a timely and appropriate manner with these two kinds of information.

1.4 Work Stages of Phase 1

Phase 1 was divided into six stages, i.e., i) the preparatory work in Japan, ii) the first field work in Indonesia, iii) the first home work in Japan, iv) the second field work in Indonesia, v) the second home work in Japan, and vi) the third field work in Japan. Prior to the submission of this report, the first five stages have been completed; the third field work in Indonesia is to be conducted at the end of December 2002 in order to explain and discuss this report and the Action Plan Report to the Indonesian side.

1.4.1 Preparatory Work in Japan

This work was carried out at the beginning of May 2002. The main contents of the work were i) the collection and analysis of data and information, ii) planning the details of the Support Program, iii) preparation of the draft of the Inception Report, iv) explanation and discussion at the advisory meeting on the Inception Report, v) finalization of the Inception Report based on comments and advice received at the meeting.

1.4.2 First Field Work in Indonesia

The first field work in Indonesia was conducted over 45 days from May 12 to June 25, 2002. The work mainly consisted of i) an explanation and discussion of the Inception Report to the Indonesian governmental organizations (refer to Attachment 2), ii) the sector analysis for the agriculture and fisheries sector, iii) a hearing from the Indonesian governmental organizations, iv) collecting the Project Brief Information Sheets (PBIS) from them.

1.4.3 First Home Work in Japan

After the first field work in Indonesia, the first home work was carried out in Japan from the end of June to the beginning of July. Major tasks of the work were i) the explanation and discussion of the first field work to the Japanese governmental organizations in an advisory meeting, and ii) preparation of the

Interim Report based on comments and advice received at the meeting.

1.4.4 Second Field Work in Indonesia

This field work was conducted over the period from the 14th of July to the 10th of September 2002. The work mainly consisted of i) the explanation and discussion of the Interim Report to the Indonesian organizations concerned (refer to Attachment 3), ii) holding the seminar for them and other development partners to facilitate their understanding of Japan's assistance strategy for the agriculture and fishery sector, iii) the discussion of the Action Plan with the relevant organizations, iv) the formulation of the Action Plan and the draft of the Monitoring System, v) the preparations of the Draft Sector Analysis Report and Draft Action Plan, and vi) an explanation and discussion of these reports to the Indonesian governmental organizations (refer to Attachment 4).

1.4.5 Second Home Work in Japan

This work was carried out over the period from the end of September to the beginning of November 2002. The work included i) the explanation and discussion of the second field work to the Japanese governmental organizations in an advisory meeting and ii) the preparation of this report based on comments and advice received at the meeting.

CHAPTER 2 SOCIOECONOMIC CONDITIONS IN INDONESIA

2.1 Present Economic Conditions

21-1 In 1998, the Indonesian economy was heavily damaged by the Asian economic crisis, which originated from the devaluation of the Thai Baht in July 1997. By 1999, the real gross domestic product (GDP) had dropped to -13.2% (refer to the table below). The largest decline occurred in the construction sector (-36.4%), followed by declines in the financial services sector (-26.6%) and trade and tourism sector (-18.2%). On the other hand, economic decline was small in the agriculture, forestry and fisheries sector (-1.3%) and mining sector (-2.8%). Thus, the impact of the Asian crisis on the agriculture, forestry and fisheries sector was relatively minor as compared to those on other sectors, though the growth rates of the real GDP of the sector have been low through the years. One of the main reasons that the economic crisis had a small effect on the sector is that the agricultural production of Indonesia largely depends on food crop production, which is less sensitive to economic changes.

Growth Rate of GDP of Indonesia (1993 Constant Price)

(Unit: %)

	1994	1995	1996	1997	1998	1999	2000
Real GDP Growth Rate	7.5	8.2	7.8	4.7	-13.2	0.9	4.8
GDP Growth rate by Sector							
Agriculture, forestry and fisheries	0.6	4.4	3.1	1.0	-1.3	2.7	1.7
Mining	5.6	6.7	6.3	2.1	-2.8	-2.4	2.3
Manufacturing	12.4	10.9	11.6	5.3	-11.4	3.8	6.2
Public work ^{*1}	12.5	15.9	13.6	12.4	3.0	8.3	8.8
Construction	14.9	12.9	12.8	7.4	-36.4	-0.8	6.8
Trade and tourism	7.6	7.9	8.2	5.8	-18.2	0.1	5.7
Transportation and communication	8.3	8.5	8.7	7.0	-15.1	-0.8	9.4
Finance	10.2	11.0	6.0	5.9	-26.6	-7.5	4.7
Service	2.8	3.3	3.4	3.6	-3.9	1.9	2.2

*1: Electricity, gas, and water supply

Source: Central Bureau of Statistics of Indonesia (<http://www.bps.go.id>)

21-2 In 1999, some of the sectors recovered slightly, and in 2000 all sectors came to achieve positive growth rates in the real term. The growth rate of the GDP in 2001 was temporarily announced at 3.3%, indicating continuous recovery of the Indonesian economy. However, some economic indicators show negative trends in 2001, as is evident in the re-appearance of inflation and the decreasing tendency of foreign and internal investments (refer to the tables to the right and below).

Rates of Increase in Consumer Price Index

(Unit: %)

1997	11.05
1998	77.63
1999	2.01
2000	9.35
2001	12.55

Source: Central Bureau of Statistics of Indonesia (<http://www.bps.go.id>)

Trend of Investments

(Unit: U.S.\$,%)

	Foreign Investment			Domestic Investment		
	Project	Amount	Difference	Project	Amount	Difference
1997	790	33,833	3,902	718	119,873	19,158
1998	1035	13,563	-20,270	324	60,749	-59,124
1999	1164	10,891	-2,672	237	53,550	-7,199
2000	1508	15,413	4,522	321	91,759	38,209
2001	1317	9,028	-6,385	249	58,673	-33,086

Source: the Investment Coordinating Board of Indonesia
(<http://www.bkmp.go.id>)

21-3 The GDP of the Indonesian economy was Rp.1.29 quadrillion in 2000 (refer to Table 2.1.1). Out of this, the manufacturing sector occupies the largest share with 26.0%, followed by the agriculture, forestry and fisheries sector (16.9%) and the trade and tourism sector (15.2%). The GDP per capita in 2000 was equivalent to U.S.\$728, which is higher than those in 1998 (U.S.\$467) and in 1999 (U.S.\$681), however is only 63% of the GDP per capita in 1996 (U.S.\$1,147).

21-4 The shares of each sub-sector in the agriculture, forestry and fisheries sector GDP in 2000 are shown in the following table. Farm food crops occupy the biggest share with 50.7%, followed by non-food crops (15.9%), fisheries (13.2%), and livestock (12.6%).

Share of Each Sub-sector in the Agriculture, Forestry and Fisheries Sector GDP (1996-2000)

(Unit: %)

	1996	1997	1998	1999	2000
Farm Food Crops	53.6	51.7	52.9	53.1	50.7
Non-food Crops	16.3	16.3	19.3	16.9	15.9
Livestock and Products	10.7	11.6	9.1	11.0	12.6
Forestry	9.2	9.7	6.8	6.4	6.9
Fisheries	10.2	10.8	12.0	12.6	13.9
Sector as a whole	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics of Indonesia (<http://www.bps.go.id>)

21-5 Among the sub-sectors, fisheries have shown a relatively high growth rate through the years, followed by livestock (refer to the table below). On the other hand, farm food crops and non-food crops indicate low growth rates. In 2000, the former achieved a 1.0 % growth, which is lower than the annual average population growth rate of 1.35%¹ during the 1990-2000 period. This implies that the farm

¹ Statistical yearbook of Indonesia, 2000

food crop sector will face severe difficulty in absorbing the increased population if it is to maintain the same level of income.

GDP Growth Rate of the Sub-sectors of the Agriculture, Forestry and Fisheries Sector
(1993 constant price)

(Unit: %)

	1996	1997	1998	1999	2000
Farm Food Crops	2.1	-2.9	2.0	1.9	1.0
Non-food Crops	4.5	1.4	0.1	2.3	1.6
Livestock and Products	5.1	4.9	-13.9	6.7	2.8
Forestry	2.2	11.6	-8.5	-4.3	1.8
Fisheries	5.4	5.8	1.9	10.7	4.0
Sector as a whole	3.1	1.0	-1.3	2.7	1.7

Source: Central Bureau of Statistics of Indonesia (<http://www.bps.go.id>)

- 21-6 The agriculture, forestry and fisheries sector employs approximately 45% of the total working population (refer to the table below). Export from this sector, including processed goods, was valued at U.S.\$7.4 billion, which is equivalent to 16% of the country's total export earnings of U.S.\$62.1 billion (refer to Table 2.1.2). The agriculture, forestry and fisheries sector thus significantly contributes to foreign currency earnings in the Indonesian economy.

Employment Situation in Indonesia

	1997年		1998年		1999年		2000年	
	People in thousands	%	People in thousands	%	People in thousands	%	People in thousands	%
Working Population	89,602.8	100.0	92,734.9	100.0	94,847.2	100.0	95,696.0	100.0
Employed Population	85,405.5	95.3	87,672.4	94.5	88,816.9	93.6	89,824.0	93.9
Unemployed Population	4,197.3	4.7	5,062.5	5.5	6,030.3	6.4	5,872.0	6.1
Employment by Sector								
Agriculture, Forestry and Fisheries	34,789.9	40.7	39,414.8	45.0	38,378.1	43.2	40,545.9	45.1
Mining and Manufacturing	11,884.2	13.9	10,608.2	12.1	12,241.7	13.8	12,112.0	13.5
Construction	4,185.0	4.9	3,521.7	4.0	3,415.1	3.8	3,537.4	3.9
Others	34,546.4	40.4	34,127.8	38.9	34,781.9	39.2	33,628.8	37.4
Total (Employed Population)	85,405.5	100.0	87,672.4	100.0	88,816.9	100.0	89,824	100.0

Source: Central Bureau of Statistics of Indonesia (<http://www.bps.go.id>)

- 21-7 It can be concluded that the agriculture, forestry and fisheries sector plays an important role in the Indonesian economy, producing 17% of the GDP, providing employment opportunities and earning foreign currency. However, the sector is performing with low economic growth and facing a lot of difficulties, as described in Chapter 3.

2.2 Present Financial Conditions

- 22-1 The GOI has attempted to regain its trust in the international market by implementing comprehensive reform for the economic structure based on the agreement with the IMF. In implementing this reform, particular attention has been paid to the reform program for recovering soundness in the finance sector, rearranging private banks and a policy for easing restrictions.
- 22-2 Taking the current financial conditions into account, the revised national budget (state revenue and expenditure) for FY2002 was approved in the national assembly on June 15, 2001 (refer to Table 2.2.1). The budget prepares Rp.344.0 trillion for expenditure and Rp.301.9 trillion for revenue, resulting in a deficit of Rp.42.1 trillion (2.5% of GDP), which is to be offset by the foreign loan, the privatization of state-owned enterprises, and the sell of the assets of the Indonesian Bank Restructuring Agency (IBRA). The balancing funds for regional governments under the decentralization policy are Rp.98.0 trillion. Most of them are to be distributed to districts (Kabupaten) and cities (Kota) rather than to provinces. The balancing funds consist of i) revenue sharing (i.e. the share of regional governments in the revenue from the land-building tax, the land-building transfer tax, and natural resources), ii) general allocation funds (DAU), which the local governments can use for various purposes, and iii) specific allocation funds (DAK) for limited uses. These three elements respectively occupy 25%, 74%, and 1% in the budget of the balancing funds: the share of the General Allocation Funds is the largest.
- 22-3 The total amount of the development expenditure and foreign loan is Rp.52.3 trillion (15% of the expenditure). The detailed classification of the amount is shown in Table 2.2.2, though the values in the table are from the initial budget. According to this table, 6.9% of the total development expenditure is distributed to the agriculture, forestry and fisheries sector. In the distributed expenditure, the three sub-sectors (i.e., agriculture (including livestock), forestry, and fisheries) occupy 67%, 6%, and 27% respectively. When comparing these figures with their shares in the GDP (agriculture:79%, forestry:7%, and fisheries:14%), it should be noted that the financial distribution to the fisheries sub-sector is relatively large.
- 22-4 One of the most serious issues in the Indonesian economy is external debt. As can be seen in Table 2.2.3, the total amount of external private and public debts was U.S.\$146.7 billion at the end of December 2000 (private debts: U.S.\$66.8 billion, public debts: U.S.\$80.0 billion), which exceeded the GDP in 2000 (U.S.\$137.6 billion). At the Public Creditor's Meeting (Paris Club) held in April

2002, it was agreed to defer an amount of U.S.\$5.4 billion, which is due by the period from April 2002 to December 2002. The rescheduled amount is almost the entire amount requested by the GOI, and this is the third rescheduling for Indonesia since the Asian crisis. It is worth noting that U.S.\$2.7 billion of the U.S.\$5.4 billion is owed to the GOJ.

- 22-5 In analyzing the state finance of Indonesia, the major issues, in addition to the external debts, are i) the burden of domestic public debt, ii) scarce lack of subsidies and iii) financial decentralization. The domestic public debt of Indonesia is estimated to be Rp.660 trillion (equivalent to U.S.\$70.4 billion at the end of December 2002). Obviously, this national debt is a heavy burden for the GOI, which only has Rp.344 trillion for expenditure in the state budget. The GOI is then required to seriously tackle the debt redemption, which will commence from 2004. The government subsidies are allocated to oil, gas and electricity, among others. However, the amount of the subsidies in the FY2002 budget is reduced to Rp.41.6 trillion (Rp.66 trillion in FY2001), which will increase the costs of fuel, including bus fare and the gas rate. In the decentralization of finance, the critical issue is whether the local governments can efficiently use authority and funds given by the decentralization policy. Moreover, there is discourse over their capability of receiving and managing loans from international agencies and donors.
- 22-6 Indonesia thus faces severe economic conditions. The reconstruction of state finances is an urgent issue for the GOI. Facing the serious problem of external debts, the GOI plans to reduce the amount of foreign loans, which will induce further serious situations for state expenditures. The serious economic and financial conditions in Indonesia force the GOJ to consider effective ways to cooperate with the country.

2.3 Present Condition of Poverty

- 23-1 The population below the poverty line² rapidly declined between the mid-1970s and 1996, one year before the economic crisis. The number of poor people in 1996 was 22.5 million, which represents 11.3% of the total population in Indonesia. However the Asian crisis had a negative impact on the people. A household economic survey conducted in August 1999 estimated that the poor population increased up to 37.5 million, 18.2% of the total population, which is

² The poverty line was defined to be the income of Rp.89,845/month for urban areas and Rp.69,420/month for rural areas as of August 1999.

more than 1.5 times that in 1996. Particular attention should be paid to the densely populated Java Island, where the number of poor people increased from 4.2 million to 10.0 million, causing high population pressure in urban areas.

Population below the Poverty Line (1976 - 1999)

	Poverty-line Population (million)			Poverty Rate (%)		
	Urban	Rural	Country	Urban	Rural	Country
1976	10.0	44.2	54.2	38.8	40.4	40.1
1980	9.5	32.8	42.3	29.0	28.4	28.6
1990	9.4	17.8	27.2	16.8	14.3	15.1
1996	7.2	15.3	22.5	9.7	12.3	11.3
1998	17.6	31.9	49.5	21.9	25.7	24.2
1999	12.4	25.1	37.5	15.1	20.2	18.2

Source: Statistical Yearbook of Indonesia 1999

- 23-2 Taking the rapid increase of poverty into account, the GOI implemented the Social Safety Net (SSN) Program from 1998 to 2001, which aims to alleviate the effects of the Asian crisis on socially disadvantaged people, such as the poor and the unemployed. For the SSN program, Rp.180 trillion was spent during the three years. In this period, the Program dealt with the prevention of student dropouts from primary and secondary schools, the assurance of access to public health services, the prevention of the deterioration of children's nutrition and the creation of job opportunities for the unemployed.
- 23-3 Although the number of poor decreased with the implementation of the SSN Program, poverty is still one of the main factors of social unsuitability in Indonesia. The alleviation of poverty, which includes the poor stratum in the social structure, transitional poverty caused by the economic crisis and the relative poor in unfair income distribution, is crucial issue in the development of Indonesia.
- 23-4 At present, in place of the SSN Program, which was implemented for emergency purposes, the GOI is to prepare and implement a long-term and sustainable poverty alleviation program. In addition, the poverty alleviation is included in the National Development Plan 2000-2004 (PROPENAS) as a major policy target. The PROPENAS is to tackle structural improvement over the period from 2000 to 2004.
- 23-5 Under this situation, the poverty alleviation is taken up in the assistance programs of the World Bank, Asian Development Bank (ADB) and other major donor countries as a major issue, as described in detail in Sub-chapter 4.4 hereof.

Social Indices Concerning Poverty

Items	1980	1999
Average life span (year)	Male: 50.9; Female: 54.0	Male: 64; Female: 68
Death rate of infants less than one year old (/1,000)	112	50
Death rate of infants from 1 to 5 years old (/1,000)	125	60
Maternity death rate	360.0 (1984-85)	390.0 (1989-94)
Average delivery (times)	4.7	2.8
Literacy rate of adults (%)	Male: 77.7; Female: 57.7	Male: 89.6; Female: 78.0
Attendance rate for elementary school (gross)	Male: 114.6; Female: 99.7	Male: 116.9; Female: 112.3
Attendance rate for junior high school (gross)	Male: 34.7; Female: 23.3	Male: 55.8; Female: 47.6

(Source) ADB, Country Operational Strategy: Indonesia, March 2001

- 23-6 From food and agricultural viewpoints, the expansion of income differentials between urban and rural areas, low fulfillment of basic human needs such as education, nutrition and medical services and incomplete basic infrastructure are deemed to be major causes for poverty. In addition, poverty-related malnutrition is a big problem. It is noted that malnutrition and a deficiency of micronutrients are the main causes for sickness and death of infants aged less-than 5 years. It is also considered that malnutrition in adults, particularly when resulting in anemia, weakens tolerance against infectious diseases and is deemed to be the main causes for death in maternity prevailing in South East Asia, including Indonesia. Furthermore, 39% of infants aged less than 5 years are suffering from chronic malnutrition and 30.5% of infants aged 6-23 months are suffering from a deficiency of protein³. In tackling the alleviation of poverty in the agriculture and fisheries sector, these serious matters should be taken into consideration.
- 23-7 In addition, the calorie intake in 1996 was 2,020 Kcal/person/day (1,984 Kcal/person/day in the urban area and 2,040 Kcal/ person/day in rural areas)⁴. However, the Asian crisis had negative impacts on people in calorie intake: in 1999 the intake reduced to was 1,849 Kcal/person/day (1,802 Kcal/person/day in urban area and 1,880 Kcal/person/day in rural areas)⁴. As the GOI's target is now 2,500 Kcal/person/day, it is necessary to consider how to improve the nutritional condition of the people.
- 23-8 The above discussion indicates that the development of agricultural and fishing villages is of great importance as a measure for poverty alleviation

³ Assessment of Poverty in Indonesia, ADB Oct.2000

⁴ Assessment on Indonesian Food Security Situation, Ministry of Agriculture 2001

2.4 Present Situation of Decentralization

- 24-1 In 1999, two laws concerning decentralization were enacted: Law No. 22 “Regional Governance” and Law No. 25 “Fiscal Balance between the Central Government and its Regions.” These laws have come into operation, and decentralization is now in progress. Under these laws, the major functions of the central government are limited to five fields (i.e., international relations, national defense/security, justice, finance and religion) and other fields such as national development planning at the macro level, development management policies and natural resource management. Other authorities have largely been transferred to districts (Kabpatens) and cities (Kota). Accordingly, it is required that regional promotion and development be implemented by the initiative of regions based on its diversity, rather than through central government as in the previous system.
- 24-2 With the decentralization, a number of public servants, facilities, and archives have been transferred from the central government to regional ones, and this was largely completed by September 2001. Totally, 239 provincial level offices of the central governments, 3,933 district/city level offices, and over 16,000 implementing units were turned over to provinces, districts, and cities. With these turnovers, almost 2 million of the public servants were transferred to the regional governments⁵. While the transferal of the facilities and public servants have been conducted smoothly, there are several problems such as the excess number of personnel in the regional governments and incapability of the local government to conduct various services.
- 24-3 The process of decentralization follows the schedule tabulated below. However, the preparation of government regulations, which are necessary to establish the framework of the two laws mentioned above, has been delayed in the schedule. Moreover, there is the inconsistency between the Law No. 22 “Regional Governance” and other regulations related to decentralization. In decentralization, thus, several problems have arisen from the aspects of institutions and policy.

⁵ Decentralization News, GTZ March 2001

Implementation Schedule of Decentralization

Period	Step	Content
Until January 2001	Preparatory work for The implementation of decentralization	• Establishment of government regulations concerned.
2001	Begin implementation of decentralization	• Transfer of authority, staff, assets and revenue source to the regional governments that have the capability to implement decentralization.
2002 ~ 2003	Implementation of decentralization	• Completion of decentralization for the regional governments that will not have been able to implement the decentralization by 2001. • Capacity building for the staff of the regional governments.
2004 ~ 2007	Strengthening of decentralization	• Improvement of the strategy and concept of decentralization. • Adjustment of discrepancy between the concept of the decentralization and legal framework. • Abolition and integration of the regional governments that will not be able to implement the decentralization.
After 2007	Stabilization of decentralization	• Continuous improvement of decentralization.

24-4 The measures to promote decentralization are summarized below⁶.

- To ensure that the distribution mechanism of the general allocation funds (DAU) is fairer and more transparent;
- To revise Law No. 22 "Regional Governance" by considering which revisions prevent the pitfall of the law.
- To render regulations enacted by regional governments invalid if they are not consistent with the national regulations.
- To establish a comprehensive monitoring system to promptly identify and manage the problem in decentralization.
- To urgently prepare the framework for distributing the specific allocation funds (DAK) and the development expenditures, so that regional governments can implement projects in a timely manner.
- To provide financial funds to allow regional governments to conduct programs for building the capacities of the staff members.

24-5 Of the countermeasures above, the capacity building of local staffs is considered as the bottleneck in the process of decentralization, thus resulting in the inefficient and ineffective provision of local governments' services. In the services provided by the agriculture and fisheries sector, the following major issues are to be considered.

24-6 The level of services for extensions is diverse between the respective districts, as they perceive different needs for and importance of agricultural extensions

⁶ Indonesia, The Imperative for Reform, World Bank, November 2001

according to their development strategies. In this situation, the Ministry of Agriculture is seeking a system that provides rational extension services with nation-wide balance and standard. In addition, some facilities managed by the Ministry have been transferred to the local government in the fields of research and agricultural education. In some cases, the operation and maintenance of these facilities are affected by insufficient budget allocations.

- 24-7 With regard to irrigation, the regional offices (Kantor Willaya) of the Ministry of Settlement and Regional Infrastructure were re-organized and transferred to the provincial government. For the operation and maintenance (O&M) of irrigation facilities, relevant laws and regulations were amended in 2001 to hand over to the water users association, and local government regulations are under preparation.
- 24-8 For fisheries sector, the MMAF formulates the government policies, and the local government implements the policy. The powers of implementation has gradually been delegated to the local government. However, most of the local governments are not able to allocate their budget for implementation, and consequently it is difficult to implement the policy.

2.5 Economic Globalization

- 25-1 With the establishment of the ASEAN⁷ Free Trade Area (AFTA) on January 1, 2002, GOI is to take part in the regional agreement of free trade⁸. In 1992, the ASEAN-starting members of 6 nations, i.e., Indonesia, Brunei, Malaysia, Philippines, Singapore, and Thailand, adopted the AFTA, thereby reaching the agreement to reduce tariff rates by 0-5% by 2003 for various goods from manufacturing to agriculture, i.e., the Common Effective Preferential Tariff (CEPT) scheme. Furthermore, the AFTA aims at removing all tariffs in the agreement region by 2010 (and for the new members of Cambodia, Laos, Myanmar, and Vietnam, by 2015).
- 25-2 The CEPT scheme consists of the following four lists.

⁷ ASEAN: Association of Southeast Asian Nations

⁸ However, as some of target products and tariff rates are not made in public by each member, there is an anxiety for the practical function of the AFTA.

Inclusion List	The list of goods, for which tariff is reduced by 0-5% by 2003. Moreover, if goods are added to the list, several conditions are imposed, e.g., the abolition of 1) non-tariff barriers for the goods within 5 years, 2) the restriction on the traded amount at the time of adding to the list, and 3) the restriction on exchange and the increase in the tariff rate.
Temporary Exclusion List	The list of goods, for which tariff is exempted temporarily. The goods in the list are to be added to the inclusion list from 2001 to 2006, and the tariffs for them are reduced by 5% in the 2 years from 2006.
Sensitive List	The list of goods, which are non-processed agricultural products with the possibility of being included in the inclusion list within 17 years from 1998.
General Exemption List	The list of goods, which are permanently out of target of tariff reduction.

25-3 According to the ASEAN secretary⁹, Indonesia has 7,260 items for the CEPT scheme including 6,675 items in the inclusion list, 517 in the temporary exclusion list, 23 in the sensitive list, and 45 in the general exemption list. The sensitive list can be classified into two categories, namely, sensitive and highly sensitive lists. For Indonesia, the former list includes garlic, cloves, wheat, and soybeans, and 12 items of their processed goods, while the latter list is composed of rice, sugar, and 11 items of their processed goods. These agricultural products (and most of the processed products) are protected from tariff reduction by 2010. However, unlike the goods in the sensitive lists, many food and estate crops are forced to go to competitive markets in the ASEAN region.

25-4 In addition to the AFTA, there are other regional and global agreements, which involve Indonesia (i.e. those based on the Asia-Pacific Economic Cooperation (APEC) and World Trade Organization (WTO) regimes). The country is therefore heading towards globalization of the economy. The economic globalization requires the GOI to eliminate trade barriers directly, and to indirectly gain comprehensive competitiveness in production, processing, and marketing for strategically significant sectors. This applies to the agriculture and fisheries sector of the country.

⁹ <http://www.ascanscc.org>