THE ROLE OF FARMERS OWNED ENTERPRISES (FOE) TO PROMOTE AN EFFICIENT MARKETING OF AGRICULTURAL PRODUCTS IN INDONESIA

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Farmers are the rational managers in term of economy
Farmers are able to decide what combination of output and inputs based on the market information to maximize profit
This farmers principle refutes the thought that farmers produce agricultural products are only to maximize output or to fulfill their family need (subsistence activity)
ISSUES

➢ In Indonesia agricultural businesses are still underdeveloped; therefore they hinder the creation of added value, job opportunity and income.

➢ The main problem was how to increase primary commodity production as well as their processing industry.
Rice farmers in Indonesia have high competitive in producing rice that was indicated by high yield

- Why they are still poor?
- Technology, capital, management, organization, and market were not favorable to farmers
- Farmers not having strong organization to service themselves on capital and fair trade
This article aims to analyze farmers economic institutions which are able to efficiently market their agricultural products. The institution is farmers owned enterprise (FOE) to internalize and build farmer capital. Built bargaining position to deal with other entities, such as government, government owned-enterprises, and private sector.

This paper is a review of various researches and relevant literatures.
Diversification of diets toward high-value commodities and opening up of market opportunities have driven a modernization on modern supply chains and retailing

- Smallholder farmers facing difficulties in exploiting these opportunities
- Companies tend to contract with large farmers, and prefer farmers with non-land assets such as irrigation or access to paved roads

Barriers for farmers to participate in domestic and international markets

Institutional innovations for vertical and horizontal coordination among smallholder farmers
The development of farmers institution aims to increase economy of scale, business efficiency, and farmers bargaining position.

- Those associations are expected to provide agricultural inputs, processing unit, marketing unit, and borrowing fund.
- Members of the organizations need to increase their capability on management skills, leadership, and entrepreneurship.

FOE
FOE is a formal organization that synergizes business activities through empowering farmers and based on corporate principles with the profit oriented, so farmers become independent

FOE based on:
- Co-operative Act No 17, 2012
- Corporation Act No 40, 2007
FOE that can achieve the goal fast if FOE synergizes with the Government Owned Enterprises and Private Owned Enterprises
- to make partnership with businesses
- to prepare by establishing strong and trustworthy business institution

Private owned enterprises also need to initiate partnership with farmers owned enterprises
Table 1. Factors that were Controlled by FOE

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Uncertified seeds</td>
<td>1. Certified seeds</td>
</tr>
<tr>
<td>2. Fertilizer, pesticide, and agricultural machinery not meet 6 criteria</td>
<td>2. Fertilizer, pesticide, and agricultural machinery meet 6 criteria</td>
</tr>
<tr>
<td>3. Agricultural mechanization not developed yet</td>
<td>3. Agricultural mechanization has developed</td>
</tr>
<tr>
<td>4. Difficult to obtain capital</td>
<td>4. Easy to get agricultural capital</td>
</tr>
<tr>
<td>5. There is no price guarantee and no value added for the rice</td>
<td>5. There are price guarantee and value added by selling to FOE</td>
</tr>
<tr>
<td>7. Farmers do not have capital saving</td>
<td>7. Farmers have capital saving</td>
</tr>
<tr>
<td>8. Farmers and their association work separately</td>
<td>8. Farmers and their association work together</td>
</tr>
<tr>
<td>9. Farmers are less wealthy</td>
<td>9. Farmers are wealthy</td>
</tr>
</tbody>
</table>

Source: Pakpahan (2009)
### Table 2. Impact of FOE on 10,000 Ha

<table>
<thead>
<tr>
<th>Source of Additional Revenue</th>
<th>FOE Before</th>
<th>FOE After</th>
<th>Growth (%)</th>
<th>Value 10,000 Ha (US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yield (ton/ha)</td>
<td>4.5</td>
<td>6.0</td>
<td>33.3</td>
<td>7,289,246</td>
</tr>
<tr>
<td>Institution innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced cost (US $/Ha)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilizers</td>
<td>150.9</td>
<td>96.1</td>
<td>(36.3)</td>
<td>1,094,443</td>
</tr>
<tr>
<td>Seeds</td>
<td>2.6</td>
<td>17.2</td>
<td>561.5</td>
<td>291,042</td>
</tr>
<tr>
<td>Interest rate</td>
<td>113.0</td>
<td>5.3</td>
<td>(95.3)</td>
<td>2,155,081</td>
</tr>
<tr>
<td>Total</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>2,958.483</td>
</tr>
<tr>
<td>Grand Total</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>10,247,729</td>
</tr>
</tbody>
</table>

Source: Pakpahan (2009)
Ministry of Small and Medium Enterprises has encouraged farmers to establish FOE to promote farmers as entrepreneur.

To increase FOEs capability, ten of Government Owned Enterprises (GOE) founded institution, named PT. Padi Energi Nusantara (PT. PEN), that supports agricultural capital.

- Profit sharing between PT. PEN and FOEs is 60:40.
- PT. PEN helps FOEs in management advancement, such as facilitating fertilizers, pesticides, seeds, capital and technology.
FOE consists of various components which are related to one another, those components encompass on farm (agricultural inputs provision, cultivation activities from land tillage to harvesting) and off-farm activities (post-harvest activities, processing and marketing).

The shareholders of the FOE are:

1) Government Owned Enterprises (GOE: PT Kujang, PT Sang Hyang Seri, PT Pertani, PT Perum Jasa Tirta II and other GOEs)
2) Local Government Owned Enterprises
3) Private sector/Central Co-operative
4) Farmers/Farmers Association
THE ROLE OF FOE ON AGRICULTURAL MARKETING

- FOE Initiated by Independent Extension Agents from FEATI Program

The role of FOE that was established by FEATI program was to market nationally its product and to shorten the marketing chain in order to get favorable price for farmers. It will provide smallholder farmers with reduced transaction cost, access to market information, and bargaining power.
FOE on Integrated Corn Business in Takalar District

Picture 1  The model show the relation among components who involved in corn business in Takalar District

FOE shareholders consist of private sector (traders), local government, farmers, and farmers association

- FOE would all receive benefit and in the same level of business
- Collaborative model from upstream to downstream was controlled by Farmers Association Group
Picture 1. Model of Integrated Corn Business (Source: Dewi et al., 2013)
The development of FOE in Sukoharjo District, Central Java Province

- FOE role was to guarantee rice market that contracts weekly and RMUs receive down payment to buy rice from farmers

- Extension agents to introduce FOE in more surrounding areas through Fishermen and Farmers Association meetings or by spreading printed media such brochures or leaflets
Development Strategies of FOE PT Padi Energi Proklamasi in Karawang District, Wes Java Province

Combination of strategic marketing at FOE PT. Padi Energi Proklamasi were as the following:

1) Product: liquid fertilizer, rice harvested, and agricultural inputs. This firm also provides services to assist every member and to help working capital;

2) Price: price paid by the firm is based on market price. Payment is in cash and also delayed payment after harvest;

3) Place: FOE market their products directly to end user without distributor. Agricultural inputs are bought from certain supplier, PT. Padi Energi Nusantara (PT. PEN);
4) Promotion: products of FOE already have a captive market, i.e., its own members. FOE has not done promotion in full effort;

5) People: the employees of the FOE have performed their duty and given good services for its members;

6) Physical Evidence: FOE has given agricultural machinery to its members to grow rice;

7) Process: FOE has tried hard to service its members on every step and process of the agricultural business. FOE provides hotline to serve its members.
FOE Dissemination Strategy in Temanggung District, Central Java Province

- Recommendation on FOE dissemination is to give farmers knowledge about FOE, agricultural technology and agricultural business, to assist farmers, and to accept consultation by farmers whether before or after FOE establishment.

- The dissemination activities should make local government, extension institutions, universities, research centers, non-government organization involved.

- The method of dissemination is adjusted to the farmer’s characteristics: interpersonal communication and various media.
CONCLUSION

- FOE which were established in several locations whether in the form of corporation or co-operative are still progressing. FEATI program: FOE has a role on providing agricultural inputs, processing, marketing, and micro-financing.

- The incorporated FOE can increase business efficiency and farmers bargaining position.

- FOE management also need to make job description clear and straightforward. It is also reinforced by good policies from local and central government.
The establishment of FOEs should be copied by farmers in other places through good dissemination by extension agents and public figures.

The results should be used as lessons learned and to set up strategies to improve inadequacy of FOE so it can establish ideal FOE.

Post FEATI program in 2013 both local and central governments should: 1) evaluate FOE performance; 2) Set up good design to develop FOE and scale-up the program in the future.