



## FFTC Agricultural Policy Platform (FFTC-AP)

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### **Indonesia Undertakes the Food Policy Reform by Promoting Corporative Farmers**

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#### **Introduction**

Indonesia is a large country in terms of population and geography and has the potential to become a food supplier for the world in the coming decades. Just recently, Indonesia's Minister of Agriculture urged his government to promote the food program in the country to the World Food Barn by 2045. This, he says, can be achieved by reducing import dependency, balancing domestic supply and demand, and optimizing exports. Therefore, the government is set to undertake the food reform policy needed to increase production and optimize integrated, consistent, and sustainable food management.

However, food price volatility in Indonesia remains a national dynamic of persisting inflation. Inequality of food distribution and price gaps have become the biggest obstacles to national economic development in food and agriculture.

By the end of 2017, the government will regulate the policy for encouraging food reform in order to ensure food availability and affordability of prices for communities and reducing welfare gaps. Increased production and supply of food, strengthened agricultural infrastructure, boosted financing in the agricultural sector, increased distribution, logistics, improved trade governance, and improved market structure, are likely to be achieved as well.

#### **Small-scale farmers framework**

Around 55 % of local farmers owned less than 0.25 hectares of land in 2013. Most do not have access to fair financing, leaving 57 % of paddy farmers to borrow funds from individuals or moneylenders, according to 2014 data from Indonesia's Central Statistical Agency (BPS) (Ribka, 2017). Given the conditions of farmers such as limited production, many of them are unable to

access funding including bank loans because they do not have qualifications as productive farmers. Therefore, the percentage of farmers in Indonesia is declining because there is not enough support from either the government or financial institutions.

Moreover, small-scale farmers do not have access to adequate education and training, and therefore, use only traditional methods when working in rice fields, which are both less efficient and less productive. On the other hand, farmers with medium or large-scale farms, who have adequate technology, will create a monopoly in the regional market. Consequently, small-scale farmers will slowly retreat and lose their land and farming positions. This becomes the main factor in decreasing the rate of food production and the instability of a regions' socioeconomic status.

### **Corporative farmers**

The government is promoting the institutions for farmers like Farmers Owned Enterprise (FOE) and Corporate or Cooperative Farming (CF). FOE is a formal organization that synergizes business activities through empowering farmers. The organization is based on corporate principles and is profit-oriented, so farmers are very likely to become independent after joining it. FOE as a farmers' cooperative, has members consisting of farmers or farmers association and is based on Co-operative Act No 17, 2012. FOE as a private or public corporation, is an organization that is formed by farmers to be operated based on corporate principles, and with the shares collected from farmers as mandated by Corporation Act No 40, 2007 (Indraningsih, 2015). In line with FOE mission, Farmers' corporations or CF is an institution that is developed by, and for farmers to strengthen the cooperation of peasants in a combination of farmer groups. Developments in the mission includes improving the type, quality, and quantity of food commodities, improving production stability and efficiency, and improving the technology used in agricultural production that is useful for increasing the scale of the small and national economy (Pangerang, 2015).

Small-scale farmers are enabled to form farmer groups with members having different capabilities, technologies, and levels. CF will be formed as an organization that will encourage diversity within an area where each member can work together to boost the production rate. It will also increase the ease for farmer groups to receive loan assistance from government programs known as People's Business Credit (KUR). This easier financial access and government support will assist greatly in monitoring and controlling the farm-owned enterprise. By utilizing the CF model, the managed lands will be efficient in production, trade, and sustainability that support effective food reform on a national scale.

### **Improving the food production capacity**

In an effort to increase national food production, the government strengthens the institution of farmers through the implementation of CF and the establishment of FOE. In the future, government policies regarding optimizing CF and FOE will be regulated to increase the production. However, the current government, through the Indonesia Agriculture Policy Act 2015 No. 14, regulates the efforts to increase the production of food crops such as rice, corn, and soybeans with integrated guidance and assistance provided to extension workers, students, and non-governmental organizations. The role of CF in government regulations is its association to farmer groups. These efforts are in line with the government's mission to demonstrate and

implement regulations among the people in rural areas, to whom it is difficult to access information.

The government's mission to increase food production and promote food reforms is being planned in 2017. Reforms will be structured according to the following: a) increasing food production and supply; b) strengthening agricultural infrastructure; c) promoting financing in the agricultural sector; d) improving distribution, logistics, and trade system improvements; e) fixing the market structure (Tempo, 2017). The policy of food reform is needed to optimize agricultural land management. With limited land, there will be collaboration with one cooperation contract so that there is improvement of management, and mechanization of the production process, supported by adequate financing, marketing, and post-harvest processing.

### **Encouraging farmers' finance by people's business credit**

The government, via the Indonesian Agriculture Ministry, regulated the people's business credit in the agriculture sector (KUR). According to Indonesia's Agriculture Policy Act 2016 No. 32, it explains that productive business activities funded by KUR program are in the field of food crops, horticulture, plantation, ruminants and non-ruminant farms such as procurement of pre-harvest machinery, manufacture and trade of production facilities, marketing of products, and supporting sub-systems for production technology.

The implementation of KUR, starts with the recipients of KUR stipulated in the regulation, who are individuals or legal entities of the productive agricultural sector in the micro, small and medium scale. It also includes business entities engaged in the agricultural and food industries for food crops, horticultural crops, plantations, and livestock. It is then followed by channeling KUR funds in a registered bank or financial institution that has been qualified as a reputable institution financially along with its services and is connected to an online data system of the KUR program, and a credit information system that is controlled and monitored by the Ministry of Finance.

In KUR channeling activities, a guarantor of KUR is necessary, so a company approved by the financing policy committee for micro, small and medium scale enterprises, acts as a guarantor company. A registered guarantor company must be approved as a financial services authority that already has an online system for information to be provided to the ministry. The cooperation between the KUR program and the ministry underwriters is a financial- based cooperation that will have interest agreements in return to the government.

KUR's principal collateral is the business or object financed by the KUR program. The governments' grants subsidized interest on KUR distribution as big as the difference between the interest rate received by the KUR dealers and the interest rate charged to the KUR beneficiaries. Based on the latest regulation in 2016, KUR recipients are able to receive KUR funds amounting to 25 million to 500 million rupiahs with interest rates of up to 9% with a term of up to 5 years. The total accumulation of loans, the time period and interest rates are subject to government regulations, scale, reputation, report of business entity such as financial report and loan guarantee (Minister of Agriculture, 2016).

By 2017, the government will target to improve the quality of KUR by mechanization and distribution in the agricultural sector. KUR will be increased by 40% with additional agricultural insurance and land certification (Kompas, 2017).

### **National food price control**

The government, through the Indonesian trade minister, sets the policy of applying the national food price standards. It is controlled directly by the ministers and the government through the market monitoring system of basic needs (SP2KP) which has been published officially on the website and the national online system. Logistics or location and the number of the population, as well as the level of the community's economy determine the standards. A standard price list of an area will also be published in the form of billboards or official local government announcements in markets or supermarkets. The government attempts to stabilize food prices to suppress inflation rates that will affect the economic condition of the community. These are set to avoid market price fluctuations or market monopolies that would affect other areas in the micro and macro economics.

### Conclusions

Systematically, Corporate Farmers (CF) act as small or medium-sized farmers groups with a mission to increase the production of agricultural products. In its operations, it requires assistance in funding that is officially supported by the government through the Indonesian Agriculture Ministry's regulations. Both the ministry and the Corporate Farmers will be balanced and sustainable if supported by internal, mechanism, financial management, technology, marketing systems, effective sales and profitable trading. In the next decades, the government through the ministry of agriculture will regulate the policy regarding corporate farmers in order to control the infrastructure, management, logistics, trading, and market structure. This Government Regulation is a form of government support in seeking efficient, sufficient, and sustainable food production to improve the nation's agriculture and food.

In line with the government's mission for improving national food productions, corporate farmers will be formed on a larger scale as farm-owned enterprises (FOE) that have been regulated and monitored by the Ministry of Agriculture. The efforts of the corporate farmer will fully support the food reform which will realize the promotion of the Indonesia's food program to World Food Barn 2045. In the future, Indonesia has a great opportunity to become a superpower in the agricultural sector, as a self-sufficient country in achieving food sustainability, which is capable of overcoming Indonesia's and the world's food problem.

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