



How Government Through Agriculture Improves the National Welfare: Case from Indonesia

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INTRODUCTION

The Indonesian government is seeking to improve the national economy to ensure economic welfare. Based on the principle of Pancasila's social justice, the government has begun to reform old programs as well as implementing new ones to strive for equality and improvement for small farm holders, the regeneration of farming, insurance for smallholders, etc. However, the government-established program is now a sequence of stories from Indonesian independence. The current government policy is the result of the failure and success of Indonesian agriculture. Many lessons from history have helped to mold the Indonesian government's agricultural policies, such as out of the 1997 monetary crisis, which, from a change of government structure and presidency, turned out to bring major changes in state policy, which had a major effect on the economy and agriculture. Since agriculture is the main sector in the Indonesian economy, this paper will discuss how the government of Indonesia has overcome the problems of national agriculture, while building the state economy and upholding the national welfare. Additionally, this paper will provide the Indonesian government with steps it should take to uphold national welfare through agriculture. Such recommendations are the result of discussion and analysis of the lessons that have been passed down by the Indonesian government since Indonesia's independence in 1945.

National agriculture framework

In line with the Agricultural Development Master Strategy (SIPP) 2015-2045, the agricultural sector's five-year development plan (RENSTRA 2015-2019) will be based on the

Agricultural Paradigm for Development (Agriculture for Development), positioning the agricultural sector as a driving force for Indonesia's agricultural development and transformation. The plan is well balanced and comprehensive, including demographic transformations as well as economic, inter-sectoral, spatial, institutional, and governance development. Such a plan will give the sector a direction of focus, by covering a wide range of interests beyond providing food for the community. Additionally, it will cover broad and multifunctional interests. Aside from being a sector focused on food security, the agricultural sector has other strategic functions including a complete analysis on environmental and social issues (poverty, justice and others) as well as providing tourism facilities such as agro-tourism. Focusing on agriculture to aid in national development is the most important factor for realizing a dignified Indonesia, independent, advanced, fair and prosperous (Ministry of Agriculture, 2015).

Government policy in agricultural development is carried out to ensure food sovereignty and farmers' welfare. Since 2014, the Indonesian government, through the minister of agriculture, A.A. Sulaiman, has supported the effort to equalize the national economy by reducing poverty.

Many new programs have been attempted for food security and equality such as food price control and food policy reform. The government's mission with these programs, introduced in 2017, is to increase food production and promote food reforms. 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 systems; e) fixing the market structure (Andoko & Liu, 2017a).

Additionally, the government supports the regeneration of farmers in order to support labor resources both in regulation, mediation (organization), education and the regeneration of farmers. The Ministry of Agriculture's mission is to regenerate farming competency in young individuals by creating the Integrated Farmer Empowerment Program and Farmers Regeneration Program. (Andoko & Liu, 2017b).

Agricultural development history

1945-1967

The birth of Law no. 5/1960, regarding Basic Agrarian Law, contains two major methods for the life of the Indonesian nation and state. First, the BAL is meant to realize the mandate of Article 33 Paragraph (3) of the 1945 Constitution, which states, "The earth and the natural wealth contained therein are controlled by the state and used for the greatest prosperity of the people". Second, the BAL is meant to overturn the colonial agrarian law and introduce the national agrarian law which conforms to the reality of the order of life of its people. The purpose of the Basic Agrarian Law lays the groundwork for the preparation of the National Agrarian Law, which establishes unity and simplicity in regard to the government's land policy, and lays the groundwork for legal certainty of land rights for all people. Everything is solely to realize prosperity, happiness and justice for the state and the people, especially the peasantry, leading to a just and prosperous society. The purpose of BAL implies an awareness and answer to the Indonesian people still feeling the effects of the cruel and unjust colonial agrarian law.

1969-1974

Since 1969, Indonesia started a mass intensive program (INMAS) for farmers as a result of the green revolution on the world stage. In that year farmers began to be introduced with various types of artificial fertilizers, pests and diseases and weeds such as pesticides and

herbicides, and seeds of high yield.

The development of agriculture in Indonesia is currently very unstable. In addition to the threats posed by natural disasters and climate change, agriculture is also threatened by increasingly hardened soil due to the overuse of fertilizers.

Initiated under President Soeharto, Repelita I is the initial foundation of agricultural development in the new order. The objective to achieve an economic growth of 5% per year prioritizing food and clothing sufficiency, infrastructural improvements, and support of agriculture. The goal of this policy is to increase employment and improve people's welfare. The emphasis of Repelita I is on the development of agriculture by focusing on improving areas of economic underdevelopment through the process of agricultural reform. Agricultural reform is the point of emphasis of this policy since most of Indonesia's population relies on agricultural products for prosperity.

1978-1984

In 1980, the Farmer's Cooperation was established to help the weaker farming groups outside Java and Bali to build larger-scale farming enterprises. As farming cooperatives were considered to be fundamental economics for a developing indigenous economy, all villages aimed to form a primary cooperative, however, the said cooperatives faced issues of lack of capital, weak management, difficulties in reaching the market due to intermediary traders. Cooperatives are perceived as "coercion" so that the name is already polluted and needed to be changed to BUUD.

1984- 1997

Increased efforts to improve people's welfare, encourage a more fair and equitable division of income, and expand employment opportunities were employed. The priority was to continue the business of establishing food self-sufficiency and improve industries that can produce their own industrial machinery. The results achieved in Repelita IV are food self-sufficiency. In 1984 Indonesia managed to produce 25.8 tons of rice. As a result, Indonesia succeeded in rice self-sufficiency. This success was awarded by FAO (Food and Agriculture Organization of the World) in 1985 and is considered as a great achievement for Indonesia.

During this time, the government focused more on agricultural and industrial sectors to improve self-sufficiency in food, increase other agricultural productions, and produce export goods. Pelita V is the end of the first stage long-term development pattern. Then the second long-term development is to hold Repelita VI which is expected to begin entering the Indonesian take-off process to spur development with its own power in order to achieve a just and prosperous society based on Pancasila.

1997-1999

Reforms were implemented as a result of the monetary crisis, having a major impact on the national economy. The inflation rate reached 11.5% in 1997 and 34.22% in 1997/1998 (Rachman, 2009). Since the 1998 crisis, rice import duties fell to 0% due to the IMF's insistence. Since then, it has triggered the implementation of new rice policy based on agricultural liberation. There are three elements of agricultural liberalization which had a strong impact on rice policy, namely: (1) fertilizer subsidy, which was repealed on 2 December 1998, followed by the economic liberalization fertilizer previously monopolized PUSRI. As a result of production costs soared to the point at which HDG (Basic Price of Grain) grew from Rp.1000, - per kg to Rp. 1400, - up to Rp. 1500, - per kg depending on the territory; (2) the rice import monopoly by BULOG was revoked at the end of 1999. Imports are now open for anyone, making control more difficult; (3) the most fatal was the import duty of food commodities at a maximum of 5%. For rice, despite the revocation of the import

policy on BULOG, fixed import duty was 0%. Indonesia's failure in the monetary crisis has had an impact on Indonesia's agricultural policy to date.

1999-2004

The Ministry of Agriculture was still recovering from the monetary crisis. This is due to the fading of long-term development on the 6th characteristic of the orientation stage of the Old Order government. In this era, a majority of the Indonesian population had lost confidence in the government, which had an enormous impact on the economy. Extension activities and agricultural intensification are slowed. The complex bureaucratic and coordination order became a structural obstacle in making innovations and solutions to food issues became more complex. The resulting impact is the low productivity of agricultural crops and horticulture. After the 1997 economic crisis, the IMF was instrumental in determining Indonesia's economic policy. By 2003 however, the Government issued many new initiatives through internal policies in a series of government programs in the face of food problems. Indonesia is still faced with food security vulnerability in various remote archipelago communities, increasing the transferal of agricultural land into the non-agricultural land as well as agrarian disputes in various areas of both government-owned and private plantations (Antara, 2000).

2004-2009

The Government of the United Indonesia Cabinet has established its development program using a triple-track strategy as a manifestation of a more pro-growth, pro-employment and pro-poor development strategy. Operationalization of the three-lane strategy is designed through the following:

1. Increased economic growth above 6.5 % per year through investment and export acceleration.
2. Revamping the real sector to be able to absorb additional labor force and create new jobs.
3. Revitalization of agriculture and rural areas to contribute to poverty alleviation.

Agricultural development activities from 2005-2009 were implemented through three programs to increase food security. The agribusiness development program conducted through the development of agribusiness superior commodities/agribusiness centers and programs for improving the welfare of farmers such as rice self-sufficiency since 2007.

2009-2014

Agricultural development from 2009-2014 included goals of achieving self-sufficiency, increasing food diversification, increasing added value, competitiveness, and exportations and increasing farming welfare.

The data released by the Central Bureau of Statistics (BPS) on August 12, 2014, showed that agricultural product imports jumped 400 percent over the past 10 years. Indonesia should import 70 percent of national needs. The data indicate that agricultural development during the two eras of United Indonesia Cabinet did not succeed (Beritasatu, 2014).

2014 – current

Under the presidency of Joko Widodo, regarding food security, it was mandated that all the food needs of the people of Indonesia must be met, regardless of the source. The principle of social justice and efforts to alleviate poverty and hunger is the central mission of the government working cabinet.

In 2014, the budget for food sovereignty program reached 67.3 trillion Rupiah (US\$ 4.8 Billion), and in 2017 jumped 53.2 percent to 103.1 trillion Rupiah (US\$ 7.4 Billion). This budget is being used to increase food production. The funds were allocated through four ways,

the Ministry of Agriculture, the Ministry of Public Works and Public Housing, fertilizer subsidies, and seed subsidies.

Indonesia's economic development phase

The relationship between the agricultural sector and the state of Indonesia's economy cannot be separated. Since 1960, Indonesia has relied heavily on agriculture as opposed to industrial and service sectors. Therefore, a brief history of the Indonesian economy is necessary to understand Indonesia's agricultural policy.

Economic development in Indonesia from the 1960s to present can be divided into four phases. The first is from the late 1960s to the mid-1970s, where Indonesia's New Order regime embraced trade and investment policies which were remarkably open for the period. The second phase is from the mid-1970s to the mid-1980s, where Indonesia adopted an inward-looking import-substitution strategy. The third phase started in the mid-1980s when the Indonesian economy reopened. In 1986, the import substitution strategy was discarded and replaced with export orientation, followed by a devaluation of the exchange rate and combined with deregulation in the domestic economy. This phase ended abruptly with the advent of the monetary crisis from 1997-98. After the turmoil due to the crisis, the fourth phase, which is known as the reform period, started in 1999. Successive governments in this period have stated their commitment to an open economic policy.

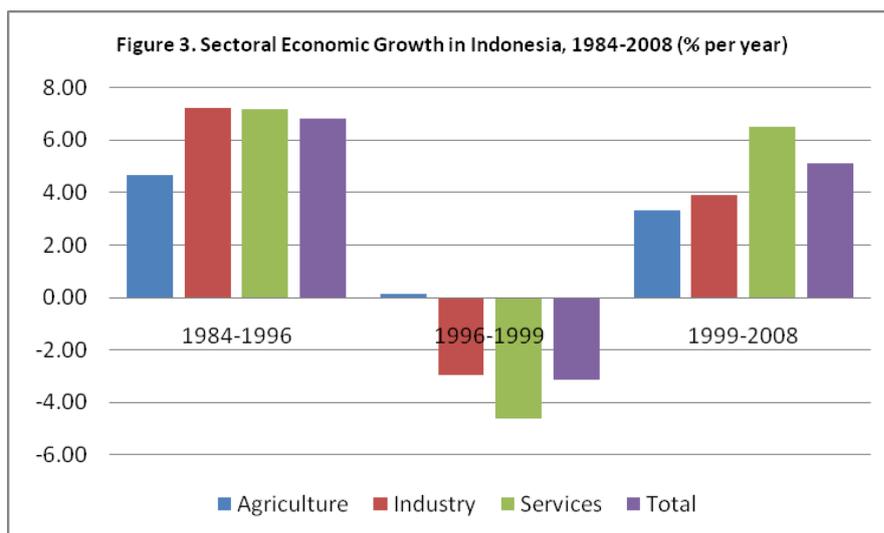


Fig. 1. Indonesia's economic development data show the economy has not centered on agriculture since 1984

Agriculture policy failure

Starting in 1984, economic development policy left the agricultural sector, spurring the growth of the industry, which is dependent on imports. Diversification of the agricultural sector was implemented by encouraging the growth of export commodities (especially oil palm, cocoa, shrimp, tuna, and skipjack) and chicken (domestic consumption). This new policy also contained strong urban bias development policies, including trade policies and exchange rates to protect the industrial sector. The budget allocation for the agricultural sector dropped dramatically.

Agricultural Government policy has focused more on production and market. The success of the New Order in food self-sufficiency, especially rice in 1985, cannot be fully considered as a paradigm truth in improving the welfare of farmers.

The Gini coefficient of land reached 0.64 in 2013, up from 0.54 in 1973. As a result, based on the agricultural census of 2013, about 56.03% of Indonesian farmers are smallholders with less than 0.5 hectares of land.

Land imbalances have an impact on the low productivity and welfare of farmers. Farming also does not meet the economies of scale. The amount of land used to grow rice, maize and soybeans must equal one hectare to achieve economies of scale. However, the average land area controlled by farmers is only 0.8 hectares. In neighboring countries, the average land ownership of farmers is greater than that. In Thailand, an average of about 3.2 hectares, while in the Philippines the average is about 2 hectares (Zuhra, 2017).

The policy of the Ministry of Agriculture so far is considered unsupportive of agricultural production to strengthen national food sovereignty. Many failures or obstacles in increasing domestic production failed to help the Indonesian population prosper. During the presidency of Joko Widodo, Working Cabinet, the government has sought food security in an effort to reduce national poverty with food self-sufficiency and farmer's welfare.

RECOMMENDATIONS AND CONCLUSION

Food problems are not only related to consumption and production, but also to the carrying capacity of the agriculture sector. There are four aspects that are a prerequisite for implementing agricultural development: (1) access to land ownership; (2) input access and production process; (3) access to markets; and (4) access to freedom. Therefore, based off of the failure of the Indonesian government to support the state in agriculture, the following recommendations are presented for the government to increase its efforts in public policy to solve national poverty and enable national welfare.

Restriction on rice imports

Restrictions on rice imports is not only an appropriate policy to help farmers, it also harms the poor. Recent studies show that more than 1.5 million people have fallen below the poverty line because of this policy. Even rice aid from the World Food Program is not allowed to enter Indonesia because it does not have an import license. This policy is intended to increase the price of rice. But this policy only benefits those who produce rice than consumed, while 90% of the urban population and 70 % of the rural population consume more rice than they produce. Overall, 80 % of Indonesia's population is negatively affected by this policy, while only 20% enjoy the benefits. Even those benefits are not so clear. The price of rice at the farmers' level did not rise significantly while prices at retail level rose considerably. It can be said that only the traders enjoy the benefits of such price increases. In the meantime, support and assistance for farmers can be achieved in many other ways, such as the provision of agricultural and rural infrastructure and the provision of research in agriculture. The imposition of import duty can also be a better alternative than import restrictions. The restriction on rice imports should decrease the customs import tax.

Land facilitation for poor farmers

a.) The land certification program must dramatically increase to achieve at least the same level as the average of other Southeast Asian countries. b.) Review and improve land, forestry and agricultural laws. c.) Assess the possibility of redistribution of land belonging to

unused state enterprises to poor landless communities. d.) Accommodate communal ownership of land as a form of ownership. The most important principle is to ensure that land use is efficiently maximized, not just for private ownership. e.) Supporting the settlement of land issues in a familial way, in addition to establishing a special court to reside over land issues. f.) Prepare regulations that ensure legal certainty for poor communities living in forestry areas. (World Bank Group, n.d.)

Improvement of education quality and farmer regeneration

Currently, the government is creating a policy to encourage youth to pursue a career in agriculture. The policy is divided into four aspects; to provide youth with access to land, provide market guarantees for youth farmers to manage agriculture, provide education on technology as well as variations of sustainable agricultural cultivation techniques to rural youth on limited agricultural land, and provide incentives for the farming profession to attract youth (Utami, 2017). The implementation, subsidy, and application is a long process that will take many years to develop.

Building micro wary financing institutions with benefits to the poor

The government needs to implement methods of providing access to the poor or smallholder farmers, such as opening banking cashiers, farmers' credit, farm subsidies, and supporting Credit Union or Farmer Cooperatives. By facilitating regulations to help finance poor farmers, the rate of farmer regeneration will increase as they change the perspective of agriculture to be an escape from poverty.

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