Investing in rural people in Indonesia

Rural poverty in Indonesia

Indonesia is the largest economy in South-East Asia and has progressed rapidly over the past decade into a dynamic, highly competitive and decentralized electoral democracy with a rapidly growing middle class. Steady economic growth has led to a gradual reduction in overall poverty in the country, which fell from 17 per cent in 2004 to 11 per cent in 2014.

Despite this, nearly 40 per cent of Indonesians still live just above the national poverty line. These ‘near poor’ households are vulnerable to shocks such as food price increases, environmental hazards and ill health, which can easily drive them into poverty. Although recent improvements in education and health sectors have occurred, public services and health standards still lag behind other middle-income countries. High rates of child malnutrition, maternal mortality, and inadequate access to education, safe water and sanitation are persistent problems among poor communities.

Three out of five Indonesians live in rural areas. Farming is their main occupation. The agriculture sector’s value added as a percentage of the gross domestic product (GDP) was reported at 17 per cent in 2011. While the agriculture sector’s share of the country’s GDP declined markedly during the last five decades, it still provides income for the majority of Indonesian households. Progress is also visible in rural areas. Nevertheless, poverty remains concentrated, with 13.8 per cent of rural people classified as poor compared with 8.2 per cent of urban populations in 2014.
Households working in informal agriculture are 2.1 times more likely to be poor than those working in other sectors, 2012 Government of Indonesia figures indicate. The poorest in rural areas tend to be farm labourers working on other people’s land or smallholders with extremely small plots (<0.5 ha).

With its vast and abundant fertile soils, Indonesia is a major global producer of a wide variety of tropical products, offering strong opportunities to smallholder producers. Yet, millions of smallholder farmers, farm workers and fishers are materially and financially unable to tap into these resources. They are often geographically isolated and lack access to agricultural extension services, markets and financial services.

Food production is still largely focused on meeting subsistence needs. The country produces crops with potentially high market value such as cocoa, coffee, nutmeg and cloves. In order to take full advantage of this opportunity however, a higher level of investment in management, processing and marketing systems is necessary to expand production.

Another sector with enormous potential is fisheries. Besides being an important food source, fisheries is also a commercial commodity for export and earning foreign exchange. It is estimated that 7.9 million Indonesian fishers are engaged in small-scale fisheries and account for 92 per cent of overall fisheries production. While many coastal and fishing communities have a thriving marine economy, others face an increasing struggle to achieve a good return due to difficulty in accessing markets and – in some areas – declining catch levels. Limited access to capital and equipment, rising operational costs and high risks are some of the additional problems faced by these communities.

There is large variation in poverty in Indonesia. Poverty statistics published by the government in 2012 show that, while the highest incidence of rural poverty exists in the eastern islands, most of Indonesia’s rural poor live in the densely populated western regions of the archipelago, namely Java.

Ethnic minority groups and women are also more likely to experience poverty. Indonesia comprises about 300 ethnic groups speaking a wide variety of languages, most of whom live on the larger islands. There are however no precise estimates of income poverty levels among ethnic minority populations. These communities are often not fully integrated into mainstream economic activities. They may also experience lack of access to education, poor health, absent or limited basic social services and facilities.

Women, too, tend to have less access to education, earn less than men, and are subject to discrimination and exclusion from decision-making processes within households and communities. Civil unrest has created many women-headed households who tend to be among the poorest and most vulnerable. Also affected are those who have been displaced from their land because of the unrest and have lost farm tools and fishing equipment.

### Eradicating rural poverty in Indonesia

Indonesia’s National Long-Term Development Plan 2005-2025 sets out the country’s key aims in terms of poverty reduction and development:

- Achieving equitable development that gives greater attention to those who are disadvantaged, including poor communities in remote or disaster-prone areas
- Increasing national food security and self-reliance based on local diversified food resources
- Developing rural areas through the promotion of agricultural production and agro-industry, by building capacity, developing infrastructure and enhancing access to information, markets and financial services.
Over the next years, the Government of Indonesia plans to strengthen food security, self-sufficiency and food sovereignty by increasing domestic production capacity, improving the quality of food and mitigating natural disturbances to food security.

**IFAD’s strategy in Indonesia**

Since 1980, IFAD has extended loans to Indonesia for 15 programmes and projects totalling US$409.8 million. Eleven of the programmes and projects have been completed, and four are ongoing. IFAD has also funded a number of country and regional grants to support investment projects in the country.

Over the last 35 years, IFAD and the Government of Indonesia have been investing almost US$1 billion in rural people to strengthen inclusive and environmentally sustainable economic growth:

- IFAD’s projects are successful in the most remote and vulnerable areas of the country that also usually have the highest incidence of poverty. In Papua, for example, where many development projects previously failed, the IFAD-supported National Programme for Community Empowerment in Rural Areas promoted community assistance and better farming techniques and empowered women to take up income-generating activities.

- IFAD supports coastal communities by decreasing their vulnerability to climate change shocks and by increasing their income from fisheries activities. Fisheries has a large potential to improve food security and enhance economic growth in Indonesia.

- IFAD has successfully facilitated a number of public-private partnerships, both with international corporations and national companies in order to maximize impact and resources. Given Indonesia’s significant commodities production potential, collaboration with the private sector is seen as a priority. This will enable smallholder farmers to gain benefits, such as increased production of high-value crops. IFAD is well placed to implement these partnerships.

- IFAD supports an enabling policy framework. An effective agricultural and fisheries sector requires a supportive regulatory and policy environment. IFAD has the knowledge, international experience and resources to support the development of effective programmes and policies for smallholders.

Under the interim country strategic opportunities programme (COSOP) for Indonesia for the period 2014 to 2015, the overall objective of IFAD’s interventions in the country is to support the government in achieving its development targets related to the agricultural and fisheries sectors. It also aims to empower smallholder producers to become more productive and better integrated with markets to achieve enhanced food security, increased incomes and reduce poverty and vulnerability.

The government has renewed its commitment to the empowerment and protection of smallholder farmers. Through its ongoing portfolio of projects and non-lending activities, IFAD will assist the government in undertaking this task and will pursue the following three objectives:

(i) Strengthened institutions and capacity of smallholder producers in the agriculture and fisheries sectors;

(ii) Enhanced productivity and marketing of the produce of smallholders; and

(iii) Increased capacity of government to put in place a regulatory and policy environment to support smallholder producers.

Securing gender balance, enhancing sustainability of investments and building resilience to climate change will be emphasized in all IFAD initiatives.

With the opening of an office in Indonesia in 2015, IFAD will move closer to its partners on the ground and further deepen its engagement in the country.
Coastal Community Development Project

The overall goal of the project is reduction in poverty and enhanced economic growth for poor but active coastal and small island communities. The development objective is increased household incomes for families involved in fisheries and marine activities in the target communities.

The project will be implemented in eastern Indonesia in areas with a high incidence of poverty. The focus will be on a limited number of districts with diverse marine environments and sociocultural contexts. The project approach has four main elements:

- Community empowerment continues to be a key strategy underlying government development programmes. It shapes the mode of implementation and provides the basis for project investment activities to work and interact.
- The market-focused strategy and associated interventions will enable fishing and marine households to increase sustainable net returns on fish and other marine products. The community's creation of enterprise groups will be the key intervention to open up economic opportunities. The enterprise groups would be ‘the engine’ in the high-potential value chains supported by the project.
- The focus on poverty and pro-poor targeting has been a determining factor in selecting the project communities. Within those communities, the focus is on the economically active poor and their inclusion in project activities.
- The planned replication and scaling up of project activities and processes has also influenced the selection of districts, and resulted in physical and social diversity and the geographical spread of project districts from West Kalimantan to Papua.

Smallholder Livelihood Development Project in Eastern Indonesia

The overall objective of the project is to reduce poverty and improve food security and incomes in poor rural communities located in the two provinces of Maluku and North Maluku. Most of the targeted populations are engaged in tree and food crop production. The project builds on the positive experiences of the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas.

Total project cost: US$65.0 million
Approved IFAD loan: US$49.1 million
Approved IFAD grant: US$1.1 million
Duration: 2011 to 2019
Directly benefiting: 49,500 households
Project interventions focus on:

- Community empowerment
- Boosting productivity by introducing integrated farming systems
- Enhancing natural resource management
- Value chain development and marketing
- Investing in productive rural infrastructure
- Strengthening local institutions.

National Programme for Community Empowerment in Rural Areas Project

With this loan and grant, IFAD supports the Government of Indonesia’s National Programme for Community Empowerment, which aims to promote greater participation of rural people in development processes, introduce more effective poverty reduction interventions and support improved local governance.

The IFAD-supported project assists agricultural development in targeted areas of rural Papua and West Papua – two provinces with largely indigenous and ethnic populations. In particular, it provides funds for productive proposals developed by communities through a participatory planning process. Local communities and community-based organizations, including tribal groups, also participate in implementing the project and monitoring progress at village level.

Activities carried out under the project include improvements in rural and market infrastructure, water supply and irrigation systems and in access to basic services in rural areas. The project enables local communities to use grants to invest in public goods that improve rural livelihoods through crop and livestock development, market linkages and value chain development, and also by stimulating local economies and generating employment opportunities.

Total project cost: US$68.5 million
Approved IFAD loan: US$68.1 million
Approved IFAD grant: US$0.4 million
Cofinancing: World Bank and International Development Association (US$1.6 billion)
Duration: 2009 to 2016
IFAD in Asia and the Pacific

IFAD’s investments in Asia and the Pacific comprise its largest regional portfolio. As of the end of 2014, IFAD was providing more than US$1.8 billion in financing for 56 ongoing programmes and projects in 20 of the region’s 34 countries. IFAD also provides regional and country-specific grants across the region. With cofinancing by development partners and funds from governments and other domestic sources, these operations represent a total investment of more than US$4.2 billion.

Ongoing initiatives supported by IFAD in the region focus on:

- Connecting rural producers to markets and creating jobs
- Invigorating and transforming rural communities
- Strengthening the capacities of women and young people
- Expanding the use of climate-smart technologies and sustainable resource management practices
- Developing and piloting innovative models of rural finance
- Partnering with producer organizations, and private and public sectors to drive rural growth.

In Asia and the Pacific, grant-funded programmes support a number of activities. Around 40 per cent of resources are allocated to research on innovative technologies; 32 per cent involve advocacy, policy dialogue and knowledge-sharing initiatives; about 18 per cent support training and capacity-building in rural communities; and 10 per cent are dedicated to innovations in value chain development. US$23.5 million of IFAD grants have mobilized more than US$15 million in cofinancing from partner institutions.
Completed operations

Rural Empowerment and Agricultural Development Programme in Central Sulawesi
Total programme cost: US$28.3 million
IFAD loan: US$21.1 million
IFAD grant: US$0.5 million
Duration: 2008 to 2015
Directly benefiting: 48,500 households

Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas
Total programme cost: US$27.4 million
IFAD loan: US$23.5 million
Duration: 2001 to 2009
Directly benefiting: 100,000 households

Income-generating Project for Marginal Farmers and Landless – Phase III (P4K – Phase III)
Total project cost: US$118.9 million
IFAD loan: US$24.9 million
Cofinancing: Asian Development Bank (US$60.5 million)
Duration: 1998 to 2006
Directly benefiting: 800,000 households

Eastern Islands Smallholder Farming Systems and Livestock Development Project
Total project cost: US$39.3 million
IFAD loan: US$18.0 million
Cofinancing: Islamic Development Bank (US$6.7 million); New Zealand (US$1.4 million)
Duration: 1996 to 2003
Directly benefiting: 30,000 households

Eastern Islands Smallholder Cashew Development Project
Total project cost: US$43.2 million
IFAD loan: US$26.0 million
Cofinancing: United Nations Development Programme (US$1.0 million)
Duration: 1994 to 2002
Directly benefiting: 45,000 households

South Sumatra Smallholder Tree Crops Development Project
Total project cost: US$28.1 million
IFAD loan: US$19.9 million
Duration: 1992 to 1998
Directly benefiting: 13,300 households
### East Java Rainfed Agriculture Project
- **Total project cost:** US$35.6 million
- **IFAD loan:** US$20.0 million
- **Cofinancing:** The Netherlands (US$3.4 million); World Food Programme (US$2.9 million)
- **Duration:** 1990 to 1998
- **Directly benefiting:** 270,000 households

### Seventeenth Irrigation (East Java Province) Project
- **Total project cost:** US$142.6 million
- **IFAD loan:** US$25.0 million
- **Cofinancing:** IBRD (US$72.6 million)
- **Duration:** 1982 to 1988
- **Directly benefiting:** 175,000 households

### Sulawesi Paddy Land Development Project
- **Total project cost:** US$52.8 million
- **IFAD loan:** US$34.0 million
- **Duration:** 1982 to 1990
- **Directly benefiting:** 8,500 households

### Smallholder Cattle Development Project – Phase I
- **Total project cost:** US$40.0 million
- **IFAD loan:** US$26.0 million
- **Duration:** 1980 to 1986
- **Directly benefiting:** 40,500 households

### Smallholder Cattle Development Project – Phase II
- **Total project cost:** US$66.4 million
- **IFAD loan:** US$12.0 million
- **Cofinancing:** International Bank for Reconstruction and Development (IBRD) (US$32.0 million)
- **Duration:** 1986 to 1993
- **Directly benefiting:** 237,100 households

### Income-Generating Project for Marginal Farmers and Landless
- **Total project cost:** US$28.1 million
- **IFAD loan:** US$14.0 million
- **Cofinancing:** United Nations Development Programme (US$1.4 million); The Netherlands (US$2.0 million)
- **Duration:** 1988 to 1997
- **Directly benefiting:** 287,500 households

### Building a poverty-free world
IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided over US$16.3 billion in grants and low-interest loans to projects that have reached about 438 million people. IFAD is an international financial institution and a specialized United Nations agency based in Rome – the UN’s food and agriculture hub.

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**Contact**

Ron Hartman  
Country Programme Manager  
Via Paolo di Dono, 44  
00142 Rome, Italy  
Tel: +39 06 5459 2184  
Fax: +39 06 5459 3184  
E-mail: r.hartman@ifad.org

Anissa Lucky Pratiwi  
Country Presence Facilitator  
IFAD Country Office  
Jalan SADAR IV/8 RT 05/02 Cinganjur  
Jakarta, Indonesia  
Mobile: +62 8180 6852825  
E-mail: a.pratiwi@ifad.org

For further information on rural poverty in Indonesia, visit the Rural Poverty Portal: [http://www.ruralpovertyportal.org](http://www.ruralpovertyportal.org)

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International Fund for Agricultural Development  
Via Paolo di Dono, 44 - 00142 Rome, Italy  
Tel: +39 06 54591 - Fax: +39 06 5043463  
E-mail: ifad@ifad.org  
www.ifad.org  
www.ruralpovertyportal.org  
[ifad-un.blogspot.com](http://ifad-un.blogspot.com)  
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