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Investing in rural people in **Indonesia**

The largest economy in South East Asia, Indonesia has evolved rapidly over the past decade into a dynamic and decentralized democracy with a growing middle class. The country has made significant progress in poverty reduction, cutting the poverty rate by more than half since 1999, to 9.82 per cent.

Three out of five Indonesians live in rural areas, where farming is their main occupation. Indonesia's agricultural sector remains an important part of the economy, employing 32 per cent of the labour force and contributing 13.5 per cent of GDP. While this share has declined markedly during the last 50 years, farming is still the main source of income for one third of the population and two thirds of poor people. Progress is visible in rural areas, but poverty remains concentrated there — 13.1 per cent of rural dwellers were classified as poor in 2018 compared with 6.89 per cent of urban populations.

With an abundance of fertile soils, Indonesia is a major global producer of numerous tropical products that provide excellent opportunities for smallholder producers, especially as the swelling middle class is demanding more, and more diversified, food products.

Nonetheless, millions of smallholder farmers, farm workers and fishers cannot take advantage of these opportunities due to limited access to finance, services and markets.



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. These include:

- achieving equitable development that pays greater attention to disadvantaged groups, including poor communities in remote or disaster-prone areas
- increasing national food security and self-reliance based on diversified local food resources
- developing rural areas through agricultural production and agro-industry, building capacity, developing infrastructure and enhancing access to information, markets and financial services.

In the next few years, the government plans to strengthen food security, self-sufficiency and food sovereignty by increasing domestic production, improving the quality of food and mitigating natural hazards to food security.

IFAD's strategy in Indonesia

Over the last 40 years, IFAD and the government have invested more than US\$1 billion in rural people to strengthen inclusive and environmentally sustainable economic growth. The Fund concentrates on helping smallholder producers and marginalized groups to become more resilient, to join supply chains and to access services, technologies and finance. IFAD's projects have been successful in the most remote and vulnerable areas of the country, which usually also have the highest incidence of poverty.

IFAD's current results-based country strategic opportunities programme (2016-2019) aims to support inclusive rural transformation so rural people can achieve sustainable livelihoods. The Fund works to achieve this by providing financing and technical support to develop models for replication and scaling up by the government and other parties. The emphasis is on empowering marginalized groups, including smallholder farmers and fishers, women and women-headed households, marginal communities and ethnic minorities, and youth.

IFAD's future investments will contribute to ensuring that:

- smallholder producers participate in remunerative agricultural markets
- smallholders and their families are more resilient to risks
- rural institutions deliver services that respond to the needs of smallholders.

Ongoing operations



Total number of projects: 20
Total cost: US\$2,764.92 million
Total financing from IFAD: US\$669.59
Directly benefiting: 3,904,600 households

Agriculture's share of GDP is declining but it is still the **main source of income** for one third of the population in Indonesia

Rural Empowerment and Agriculture Development Scaling-up Initiative

Although agriculture is well established in some parts of the country, smallholder farming is less developed in geographically remote areas such as Sulawesi and the border districts in West Kalimantan and East Nusa Tenggara.

READSI aims to deliver sustainable improvements in the livelihoods of rural poor people by increasing smallholder household assets and incomes, reducing chronic malnutrition in children, improving access to markets and services, and reducing food insecurity.

The project builds on, and scales up, the successful Rural Empowerment and Agricultural Development project. It will sustainably improve incomes and livelihoods, and enhance nutrition for 67,400 rural smallholder households in 18 districts in Sulawesi Island.

The total cost of the project is US\$55.3 million, including a US\$39.9 million loan and a US\$1 million grant from IFAD. The government will contribute US\$9.6 million and the private sector will make up the difference. The project is being implemented over five years.

Integrated Participatory Development and Management of the Irrigation Sector Project

The overall goal of the project is to improve food security, incomes and livelihoods for 900,000 poor rural smallholder households. It aims to increase the value and sustainability of irrigated agriculture by:

- improving agricultural production and market systems and services, including financial services, mainly for rice and high-value irrigated crops
- rehabilitating, upgrading and/or modernizing primary, secondary and tertiary irrigation systems and drainage infrastructure
- improving water delivery systems for irrigation and strengthening water-use associations, and improving management and operations
- strengthening the capacity of government institutions and implementing agencies to manage irrigation systems.

The project targets 16 provinces in Sumatra, Java, Kalimantan, Sulawesi and Nusa Tenggara, comprising 74 districts and approximately 1,800 irrigation schemes, and covering a total area of around 1,900,000 ha.

IFAD is providing a US\$98.5 million loan and a US\$1.5 million grant towards the US\$852.9 million project. Cofinanciers include the Asian Development Bank (US\$600 million) and the Government of Indonesia (US\$152.9 million). The project is being implemented over six years.

Youth Entrepreneurship and Employment Support Services Programme

The overall objective of the programme is to promote employment and entrepreneurship in agriculture-related sectors. It focuses on the creation of opportunities for rural youth to build their economic livelihoods. It will also contribute to sustainable rural transformation and develop a new generation of farmers, agripreneurs and rural value-chain drivers.

Activities are clustered around four interlinked and complementary components focusing on:

- building the skills of rural youth and improving business development services
- creating employment opportunities

IFAD helps **smallholder producers** and marginalized groups become more resilient, **integrate into supply chains**, and **gain access to services, technologies and finance**

- linking participants to financial institutions
- establishing a conducive policy environment in which young rural workers and entrepreneurs can thrive

The programme aims to reach 320,000 households in four provinces. The total cost is US\$72.6 million over six years, of which IFAD is contributing a US\$55.3 million loan and a US\$2.0 million grant, and the government US\$12.09 million.

Transformasi Ekonomi Kampung Terpadu – Integrated Village Economic Transformation Project

IFAD is supporting the government's National Village Fund and Village Empowerment Programme. TEKAD's goal is that empowered village communities contribute to rural transformation and inclusive growth in eastern Indonesia. Its development objective is to enable rural households to achieve sustainable livelihoods, taking advantage of strengthened village- and district-level governance.

The project is assisting agricultural development in targeted areas of rural Papua and West Papua, Maluku, North Maluku and East Nusa Tenggara, five provinces with largely indigenous populations. It is leveraging village funds to support productive proposals developed by communities through a participatory planning process. Local communities and community-based organizations, including tribal groups, are also participating in implementation and monitoring progress at the village level.

The initiative aims to reach households in five rural provinces of Eastern Indonesia. The total cost is estimated at around US\$622 million over six years, of which IFAD is providing a US\$32.86 million loan and a US\$1.5 million grant.

Development of Integrated Farming Systems in Upland Areas

The project goal is to reduce poverty and enhance food security in upland areas through sustainable and resilient livelihoods in 14 districts across seven provinces: Banten, West Java, Central Java, East Java, West Nusa Tenggara, North Sulawesi and Gorontalo.

The project will focus on small-scale farmers and processors already involved or with the potential to become involved in producing selected commodities. It will invest in developing a limited number of commodities (one commodity per district) to reduce complexity and increase the likelihood of success. The commodities include: mangosteen, organic rice, mango, coffee, shallot, goats, potato and banana. UPLANDS will work directly with rural households, farmers' groups and women's groups and high priority will be given to youth. A total of 30,000 households (250,000 people) are expected to benefit. The project will cost an estimated US\$151.66 million, of which IFAD is financing US\$50 million. It will be implemented over five years, from 2019 to 2024.

IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided US\$22.6 billion in grants and low-interest loans to projects that have reached about 513 million people. IFAD is an international financial institution and a United Nations specialized agency based in Rome – the United Nations food and agriculture hub.

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