

### INDONESIA COUNTRY PROGRAMME EVALUATION

## Small farmer poverty amidst Indonesia's rising prosperity

**I**n 2012-2013, the Independent Office of Evaluation of IFAD undertook the second country programme evaluation in Indonesia, assessing the IFAD-Indonesia partnership over the period 2004-2012. During this period, there was no country strategic opportunities programme (COSOP) from 2004 till the current COSOP was put in place in 2008. The 2008 COSOP has three strategic objectives: to boost on- and off-farm productivity, improve infrastructure and services, and empower local communities.

Indonesia is fast becoming Asia's success story. It has acquired middle-income status and prosperity is spreading. Projections through to 2030 present a positive outlook for Indonesia's economy. The country is expected to grow from the 16th to the 7th largest economy in the world. A significant increase in market opportunities in core sectors is foreseen, including agriculture.

Agriculture is and will continue to remain a very important sector in the Indonesia economy and for the Indonesian people, even after the country has transitioned into a middle-income country. Agricultural sector accounts for about 15 per cent of GDP and provides employment to about 38 per cent of the work force. Approximately 50 per cent of the population is in the rural areas and agriculture (directly and/or indirectly) is their main source of livelihood. Agriculture also accounts for a large share of exports (mainly cash crops) and imports (mainly food). Since 2008, when international rice prices skyrocketed and rice surplus countries banned exports, food security has again become a national priority.

Rising demand for food and agricultural products presents a significant opportunity for the rural sector and the small farmers who dominate it. Many of these small farmers are mired in poverty.

Indonesia has millions of rural people who are poor or near poor. A significant proportion of these poor rural people belong to small farmer households. The majority of farms are small and are less than 0.5 ha. Because of fragmentation, the farm size is likely to decline even further. Land tenure security for smallholders is a major issue and adds to their vulnerability.



**Cocoa production in Central Sulawesi.**

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Only about 25 per cent of the traditional agricultural land parcels have been formalized with land certificates. According to the Central Bureau of Statistics, there are about 25.5 million farmer households which were considered very poor and 20 per cent were headed by women. Agricultural productivity holds promise of changing their lives but the challenges are formidable.

Episodes of natural calamities and climate change impact small farmers dramatically. So does historically low productivity and little access to credit and technology. Weak sub-national capacity limits effectiveness of public services for small farmers. Public and private sector services for technology, inputs and infrastructure do not easily reach small farmers who have not gained enough

from technological innovations such as information technology. Lack of incentives and support for private sector players limits their benefits for small farmers who face obstacles in forging backward and forward linkages to markets.

Agricultural subsidies account for about 60 per cent of agricultural spending in Indonesia. Yet, despite the efforts by the government, there is a lot of scope to increase benefits from subsidies to farmers. There is also a need to allocate more resources for agricultural research, extension and irrigation. When it comes to dissemination of new agricultural technology, the agricultural extension agencies often do not reach the small farmers. In this context, it is very important to use the latest information and communication technology not only to disseminate agricultural technology but also to communicate information related to weather, prices and markets. Empowerment holds the key to stimulate and sustain demand for progress in small farmer agriculture. While community empowerment has progressed, small farmers need to be better organized and thus empowered. Small farmers' groups need to be endowed with capacity and connected to sources of prosperity.

The evaluation concluded that IFAD in Indonesia has earned a reputation for being a small, friendly, non-intrusive, flexible UN specialized agency with a genuine interest in reducing rural poverty. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated but IFAD is not widely known. The partnership between IFAD and the Government of Indonesia is operating below potential and there are enormous opportunities to enhance its effectiveness.

The current Indonesian donor assistance framework has a gap in regard to addressing small farmer poverty through agricultural interventions. IFAD could fill this gap by making agriculture the central theme of its activities and focus on lifting small farmers out of poverty through support for measures to raise their agricultural productivity and through their empowerment.

In particular, IFAD could play a leading role in promoting productive, competitive and high value smallholder agriculture. This can be done by identifying, promoting, validating and scaling up viable agriculture innovations that are appropriate for smallholder agriculture but in active partnership with the government, other strategic partners and stakeholders, including public-private partnerships. Promoting efficient and productive smallholder agriculture will not only increase agricultural growth but will also reduce poverty, improve food security and empower women.

Given rapid urbanization, a declining share of the farming population has to meet the rising demand for food, feed and agricultural raw materials over time. There is thus a great opportunity and challenge for IFAD to develop a brand name as a key supporter of productive, competitive and high value smallholder agriculture in Indonesia through the instrument of a national programme for small farmers.



**Technical support from the private sector for cocoa production in Central Sulawesi.**

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**Further information:**

Republic of Indonesia, Country Programme Evaluation, Report No. 3253-ID, February 2014, ISBN 978-92-9072-436-0, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 44, 00142, Rome, Italy. The full report, Profile and Insights are available online at: [www.ifad.org/evaluation](http://www.ifad.org/evaluation); email: [evaluation@ifad.org](mailto:evaluation@ifad.org).