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PUBLIC SECTOR SUPPORT FOR INCLUSIVE AGRIBUSINESS DEVELOPMENT

**An appraisal of institutional
models in Indonesia**





PUBLIC SECTOR SUPPORT FOR INCLUSIVE AGRIBUSINESS DEVELOPMENT

An appraisal of institutional models in Indonesia

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Preface

The agrifood system is changing rapidly. Structural changes are occurring throughout the system in response to the modernization of agriculture (globalization, coordination and concentration) and shifting consumer and societal demands for safer, better-quality and ready-to-eat food produced in a socially and environmentally responsible manner. This new scenario coexists with more traditional types of family and subsistence farming.

This changing environment places increased pressure on Ministries of Agriculture (MOAs) in developing countries to engage in agribusiness and agro-industry development. However, to what extent are the MOAs empowered and equipped to do so? Many of them have seen their mandates and functions expanded from a strictly productive dimension to a more holistic, farm-to-fork approach. This expansion should be reflected in the provision of an increased scope of public goods and services to deal with post-production issues. MOAs also face the challenge of mainstreaming relatively new approaches such as the design and implementation of value chain programmes; climate-smart agriculture; the use of contract farming; public-private partnerships and other private sector engagement models; and agribusiness programmes with a territorial dimension (e.g., agricultural growth corridors and clusters).

FAO has conducted an appraisal of the organizational arrangements used by MOAs to support inclusive agribusiness and agro-industry development, which included a scoping survey of 71 countries and in-depth analysis of 21 case studies from Africa, Asia and Latin America. The study found that many MOAs have established specific agribusiness units with technical, policy and/or coordination functions concerning agribusiness development. Others have set up clusters of units with complementary individual mandates.

The study analysed how well prepared these agribusiness units and their staff are to deal with both traditional and non-traditional approaches and tools for agribusiness development. This assessment examined the units' staffing, organizational structure and budget allocation, and the range and quality of goods and services they provide.

FAO is publishing this series of country case studies to enhance knowledge and information on best practices for establishing and operating well-performing agribusiness units. The various organizational models applied by countries to cater to the changing agribusiness environment are also explored, including mechanisms to build linkages with other relevant ministries (e.g., of industry and commerce) and private institutions. The series provides an opportunity to raise awareness about the need for stronger public commitment to inclusive agribusiness and agro-industrial growth, reflected in a more generous allocation of human and financial resources to empower agribusiness units and similar structures within MOAs. Refocusing the core functions and/or targeting specific commodity/value chains could also help the units to achieve a suitable balance between the requirements of their changing agribusiness mandates and their existing resource allocations, while maximizing the achievement of social goals (e.g., inclusiveness and job creation).

Acronyms

AARD	Agency of Agricultural Research and Development
ACIAR	Australian Centre for International Agricultural Research
AGS	Rural Infrastructure and Agro-Industries Division
APO	Asian Productivity Organization
ASEAN	Association of Southeast Asian Nations
CSR	corporate social responsibility
DG	Directorate General
DGAI	Directorate General of Agro-Industry
DGAPPM	Directorate General of Agricultural Product Processing and Marketing
GAPOKTAN	Federation of Farmers' Groups
JICA	Japanese International Cooperation Agency
KII	key informant interview
MOA	Ministry of Agriculture
MOI	Ministry of Industry
MOT	Ministry of Trade
SEARCA	Southeast Asian Regional Center for Graduate Study and Research in Agriculture
SWOT	strengths, weaknesses, opportunities and threats (analysis)
WTO	World Trade Organization

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Executive summary

Over recent years, FAO's Rural Infrastructure and Agro-Industries Division (AGS) has received many requests for strategic advisory support on agribusiness. To increase its knowledge and expertise on organizational reform and to strengthen relevant agribusiness capacities in Ministries of Agriculture (MOAs), AGS has initiated a series of efforts, including the preparation of fact sheets, mission statements, a checklist on institutional arrangements for agribusiness and agro-industry development, and a study on innovative approaches for accelerating agribusiness development by institutions and others.

In 2011, AGS complemented these efforts by initiating a worldwide appraisal of the organizational arrangements used by MOAs and – as appropriate – cross-ministerial and long-term programmatic mechanisms for supporting agribusiness and agro-industry development. A scoping study appraising the institutional mandates for agribusiness support in Asia was conducted early in 2011, and six countries were selected for case studies: Bangladesh, Indonesia, Malaysia, Nepal, the Philippines and Viet Nam.

This paper describes the situation in Indonesia. The three main objectives of the case study were: i) to clarify the organizational changes that Indonesia's MOA has introduced to facilitate new functions related to agribusiness; ii) to characterize the MOA's agribusiness unit and describe its functional roles, key objectives, current priorities, and scope of service provision for agribusiness and agro-industries; and iii) to assess the unit's capacities to fulfil its functions, the opportunities and threats it faces, and its institutional comparative advantage for the provision of services related to agribusiness and agro-industry development.

The in-depth case study used two main sources of information: key informant interviews (KII) with a planned 25 respondents, of whom 17 were interviewed; and secondary data collection and review. Key informants included staff from the core agribusiness unit, partner organizations, support agencies, the private sector and a donor agency.

An agribusiness unit in the MOA was first established in 1993 as the Agency of Agribusiness, which served as a business unit for the agriculture sector. In 2001, the MOA was reorganized to accommodate the agribusiness system, with separate units providing services to each of the agribusiness subsystems: infrastructure; on-farm; and downstream, off-farm. According to the agribusiness system concept, these subsystems need to be integrated to create vertical agribusiness product chains.

The Directorate General of Agricultural Product Processing and Marketing (DGAPPM) provides a good model for the provision of a wide range of services to the downstream, off-farm agribusiness subsystem. DGAPPM provides services in five main areas: business development and investment; processing of agricultural products; quality and standardization; domestic marketing; and international marketing. Each of these service areas is handled by a dedicated unit. DGAPPM services cover the 11 agribusiness service areas examined in the FAO case studies.

DGAPPM's performance in delivering services has been hampered by its very limited budget allocations and the low technical competency of its staff in some areas. This underperformance was identified on the basis stakeholders' low recognition of the function, mandate and even existence of DGAPPM.

Although service provision for the agribusiness downstream, off-farm subsystem – such as for processing and marketing – has been incorporated into the MOA's mandate through DGAPPM, the MOA still lacks any authority beyond production issues. Authority, policy-making and functions for the processing industries, including agro-industries, are all under the mandate of the Ministry of Industry (MOI).

In the MOI, facilitation and services for the industrial processing of agricultural products are provided by the Directorate General of Agro-Industry (DGAI), which focuses more on manufacturing than on assisting small farmers as part of the supply chain. Thus, the services of DGAI are less likely to benefit farmers and rural areas.

One proposed development path would be to expand the mandate of DGAPPM to include agro-industry and to integrate DGAI into DGAPPM under the MOA. DGAPPM already has the mission of developing an agro-industry system in rural areas, through the integration of production systems and post-harvest, processing and marketing activities for agricultural products to increase employment opportunities in rural areas, the value added of agricultural products and farmers' incomes.

FAO could support Indonesia and other emerging and developing countries in applying an institutional model with sound policy and approaches through the provision of training, technical assistance, and media sharing among developing countries and with experts from developed countries. Useful activities could include: i) support to policy, project, programme and budget formulation, to design programmes with realistic objectives, budgets and implementation plans; ii) comparative country case studies on current issues and development initiatives; and iii) international workshops for sharing, exchanging and discussing information and issues. These activities would ensure knowledge sharing among countries and accelerate the learning curve.

Chapter 1

Introduction

1.1 BACKGROUND

The new agribusiness era is characterized by a shift from family farms to strategically placed commercial production and processing units linked to exporters and modern retailers. New sophisticated and globalized procurement practices have been mainstreamed to comply with food quality and safety standards, including traceability requirements, reduce transaction costs and minimize risks. Changing consumer preferences (especially for pleasure, health, fitness, convenience and ethics) and concerns about the impacts of climate change are pushing the agribusiness sector to new heights of performance and innovation.

This changing agribusiness environment is also placing increased pressure on ministries of agriculture (MoAs) to engage in agribusiness and agro-industry development. In 2007, FAO's Committee on Agriculture identified the review and reform of institutional mandates for agribusiness and agro-industries¹ as a top priority (FAO, 2007), and in recent years, its Rural Infrastructure and Agro-Industries Division (AGS) has received many requests for strategic advisory support for agribusiness from countries such as India, Kenya, Nepal, Pakistan, Sierra Leone and Swaziland.

AGS's efforts to increase its knowledge and expertise on the organizational reform and strengthening of MOAs to enhance agribusiness capacities include the preparation of fact sheets, mission statements and a checklist on institutional arrangements for agribusiness and agro-industry development in 19 African countries (2008); a study on innovative approaches for accelerating agribusiness development among institutions and other bodies in sub-Saharan Africa (2009); and groundwork on the role of government institutions in agribusiness, supply chain management and

agro-industry development in the Commonwealth of Independent States (2010). AGS organized a workshop on market-oriented extension services and support to agribusiness in Harare (Zimbabwe) in October 2010, attended by representatives from the MOAs of 15 East and Southern African countries.² During the three days of presentations and discussions, a wealth of information on what MOAs in these regions were doing to adapt to the new agribusiness era was shared. In particular, participants described the organizational changes taking place as their ministries assume new functions related to agribusiness, focusing on the new organizational structures, priorities and scope for service provision to agribusiness and agro-industries, and priority areas for capacity building. Based on the information gathered during the workshop, more in-depth studies were undertaken in these regions.

In 2011, AGS complemented these efforts by initiating a worldwide appraisal of the organizational arrangements of MOAs and – as appropriate – cross-ministerial and long-term programmatic mechanisms for supporting agribusiness and agro-industry development. This appraisal focused on innovative models and the new functions of MOAs, assessing how MOAs addressed their new functions in practice, identifying capacity building needs and drawing lessons and good practices.

In Asia, this initiative was carried out in collaboration with the Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA). A scoping study appraising the institutional mandates for agribusiness support in Asia was conducted in early 2011, and six countries were selected for case studies: Bangladesh, Indonesia, Malaysia, Nepal, the Philippines and Viet Nam.

Indonesia was selected because it met the criteria for “a country with the mandate for agribusiness delegated to a cluster of departments and/or bureaux”, including: i) a specific unit for agribusi-

¹ For the purposes of this study, agribusiness enterprises include firms or business entities that produce or provide inputs; produce raw materials and fresh products; process or manufacture food or other agricultural products; transport, store or trade agricultural products; or retail such products.

² Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, South Africa, the Sudan, Swaziland, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe.