Integrated Subsidy for the Indonesian Farmers: Concept and Implementation[7)]

Abstract

The most of the content of this paper will discuss about integrated subsidy, one of the latest of the ICASEPS policy recommendation. Empirical facts showed that, it was not all of the farmers, who received the subsidy, their condition much better after received the subsidy. There are several factors that influence the less effectiveness of farmers' subsidy, the dominant factor is due to partial approach of subsidy. Integrated subsidy is an integrated instrument subsidy policy both in the concept and in its implementation. There are minimum three type of subsidy in this package, namely are input price subsidy, interest rate subsidy of capital and output price subsidy. The management design of integrated subsidy is a complete and active, and consists of (1) delivery system; (2) receiving system; and (3) accountability system. The allocation of subsidy is implemented under the control an integrated administration, namely Integrated Subsidy of Administration System (SASDU). The targeted site of subsidy is the producing center of commodity development in national and province level. The target of subsidy beneficiaries is a whole of farmers' organization in the central producing areas of commodity development

Justification

Almost every week, the Indonesia Center for Agricultural Socio Economic and Policy Studies (ICASEPS) released a policy recommendation for different stakeholders in the Ministry of Agriculture and others institutions. A policy recommendation is a statement that makes a specific proposal for action, and in this part we will discuss one of the latest of the ICASEPS policy recommendation about an integrated subsidy for the Indonesian farmers.

There are some justifications and reasons for the farmers' subsidy, and this paper not to discuss about that. Most of the content of this paper will discuss about integrated subsidy, in relation with partial subsidy that already done by the Indonesian government in the past. Subsidy payments to Indonesian farmers take several forms and are computed according to complex formulas. In some cases, the Indonesia government makes direct payments to farmers. In others, it give subsidy to the price of input that farmers used in farm activities, in effect, that they can receive the input price lower than the market price. For the end product of farmers, there is another subsidy to guarantee market for farmers output, especially rice.

By implementing several forms of subsidy, the government wants to improve the farmer's condition and alleviate poverty and hunger in rural areas. During peak economic crisis in 1998, number of poor people in Indonesia reached almost 50 million persons and about 64.4 percent were living in the rural areas.

Empirical facts showed that, it was not all of the farmers, who received the subsidy, their condition much better after received the subsidy. There are several factors that influence the less effectiveness of farmers' subsidy, the dominant factor is due to partial approach of subsidy. Agricultural land availability in Indonesia is relatively limited, and most of the farmers in Indonesia are landless or owned the land less than 0.5 hectare. The average land per capita is only 0.09 ha, and the average landholding of 53 percent farm households is less than 0.5 ha per household. Farmers' Social Economic Panel Data (PATANAS) in Java even show stranger figure, where average land holding of 88 percent farm household is less than 0.5 ha. Agriculture Census data also show that smallholders with land occupation of less than 0.5 ha have increased from 10.8 million households in 1993 to 13.7 million household in 2003, or increased by 2.6 percent per annum. The above phenomena, in some cases, eliminate the effectiveness of the subsidy due to the subsidy only improve partly of their farm activities.

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[7] Hand out for informal workshop at Australian National University Organized by ACIAR, 21 August 2006.

The partial subsidy will improve the farmer farm activities partly. For examples, the farmer, who get subsidy for their input only, they will use the best input and improve their farm production. Due to they didn't get subsidy for the output, they got lower price for their output and the input subsidy have not impact for their welfare. On the other side, the farmer, who get subsidy for their output only, they will use minimum input because lack of capital to buy input. Their farm production will be lower than the farm with maximum input. In this situation, the output subsidy is not improving the farmer welfare perfectly. Based on the above reason, we need to propose an integrated subsidy to the farmer.

The Concept of Integrated Subsidy

Integrated subsidy is an integrated instrument subsidy policy both in the concept and in its implementation. There are minimum three type of subsidy in this package, namely are input price subsidy, interest rate subsidy of capital and output price subsidy. Output price policy is a policy that similar with floor price policy in rice and sugar, this policy is not a directly subsidy but the subsidy is paid to the state own enter price (BULOG) and the farmers get minimum price for their output. In the integrated subsidy, the farmers will get all of the three of type subsidy, and these are an incentive for the farmer in agricultural production process.

The objective of the entire subsidy is to improve the output of agricultural product and the farm benefit. In conceptual, to realize the target of amount the output and benefit for the farmers, the government can choose some combination of subsidy for input price, interest subsidy of capital and output price subsidy that will give the minimum policy cost. In the first step, the central issue in this paper is how to choose the amount of subsidy with minimum cost and the optimum impact in the farmer output and income.

The integrated subsidy is better than partial subsidy become: (1) better targeted and eliminate the loss due to price disparity; (2) it make a good synergy between the farmer initiative and the government effort, and in the end that will get a lower and more effective subsidy; (3) it will reduce the production constraint in farm activities; (4) it avoid the incidence of double subsidy; (5) the farmer will use more efficient input use and be more professional in their business.

Operational Scheme

The component of integrated subsidy consist of (1) input production: seed, fertilizer and pesticide (2) interest rate subsidy of capital for the production process and wage laborer payment. The amount of subsidy depends on the total farmer land occupation, and not what the farmers want. In the end of production process, the subsidy for the farmers price output will assure the farmer get minimum price for their product.

The amount of subsidy is the different between the input price in the market, without subsidy, and the price that the farmers pay. There are two procedure of allocation of the input subsidy to the farmer, namely (1) subsidy directly to the farmer; (2) subsidy to the producers of input. For the first one, subsidy is directly paid to the farmer, in this scheme, the amount of subsidy is the different of the input price in the market, without subsidy, and the price with subsidy time the number of input that the farmers purchase. Subsidy to the producers is a subsidy allocated directly to the producers of input and the farmer indirectly gets the subsidy price when they buy the input in the market with lower price.

By indirectly paying subsidy to the producers, the producers will sell their product in two different prices, the subsidized price and market price. There are problem with dualism of price, and need special effort to control the allocation of input, especially input with subsidy to the farmers. Based on the previous experience in fertilizer subsidy, need special effort and cost to control the allocation of fertilizer for the farmer, with subsidy, and the others, without subsidy. Direct subsidies to the farmer reduce some inefficiency in allocation process, because the producers sell their product only in one price.

The weakness of direct subsidy to the farmers needs a reliable basic data about the amount of land occupation by the farmers and the amount of input they need. In subsidy to the producers no need the detail data. Based on the above condition, the application of the integrated subsidy is conduced in two steps. In first step, the subsidy still to the producers and the allocation process to the farmers by the package depend on the farmer land occupation. In the next step, subsidy allocates directly to the farmers by the package depend on the farmer land occupation.

The allocation of subsidy is implemented under the control an integrated administration, namely Integrated Subsidy of Administration System (SASDU). The SASDU is an institution under farmers control and it is a group of farmers organizations in area around 250 hectare with the same commodity. In the municipality, district and province level the SASDU is under control of the agriculture service official.

Management of Integrated Subsidy

The management design of integrated subsidy is a complete and active, and consists of (1) delivery system; (2) receiving system; and (3) accountability system. The distribution system is under control of the SASDU. The SASDU assist the farmers in input procurement, and distribute the subsidy to farmers' organization. The SASDU in collaboration with the trader guarantee the farmers get minimum price for their product.

In the farmer level, receiving system is under the farmers' organization and the field agriculture extension control. The field agriculture extension assist the farmers in preparing the definitive plan of group activities (RDKK) and identify the technology that farmers need.

Accountability system is a system to control input and capital delivery process through delivery order based on the RDKK that proposed by the farmers' organization. The accountability system also makes a recapitulation of integrated subsidy distribution, based on the delivery order they accept. The accountability system is a responsibility of controlling in the SASDU system.

Delivery System

One year before realizing the subsidy, SASDU in village level compile a program planning for the farm activities per season. The planning is for one calendar year, consist of the total cultivated area and total input and capital need. Based on these data, SASDU in the village level propose the total amount of integrated subsidy for the farmer in their area to the SASDU in the district level.

The compilation of SASDU proposal from some village in the district level will be verified by the input producers, Bank, Field extension and head of farmers group. The result of verification process which also served as a document is the SASDU annual planning document for evaluation process in the province and national level. Based on the national compilation, the Ministry of Agriculture declares the amount of subsidy that will provided by the government, in line with the availability of the government budget and the others constrains. In the district level, the head of district or municipality (Bupati/Walikota) decide the amount of subsidy for the farmers based on the Ministry of Agriculture decision. The input producers and the collaborating Bank prepare and process the distribution subsidy. SASDU in the village level serves as subsidy distribution to the farmers.

Receiving System and Accountability System

Field extension officer in collaboration with Assessment Institute for Agricultural Technology (BPTP) and farmers group prepare and discuss a specific technology that the farmer really need for their farm. The agreement among the above participant will be definitive plan of group activities (RDKK) in one season. If integrated subsidy directly delivered to the farmers, hence the content of RDKK consist of: (a) The actual input and capital that the farmers really

need; (b) the actual farmer's ability to pay the input cost; (c) the total subsidy for the farmers; (d) the total loan for the farmers (if they with to get loan). If the integrated subsidy directly paid to the producers, the RDKK consists of: (a) The input and capital that the farmers need in term of subsidy price; (b) the total loan that the farmers need.

RDKK is ratified by the local field extension and local agriculture official. The final RDKK is a base for the SASDU in distributing subsidy and determine the amount of subsidy for each farmer group. The SASDU activity is under control district supervision badge. The district supervision badge summarizes all of the subsidy distribution and submit a report to the provincial and national level supervisor.

The Amount of Subsidy

In 2008 the application of integrated subsidy is focused primarily for food crop, such as rice, maize and Soybean. The component of subsidy consist of interest of capital for wage laborer, fertilizer and seed. The distribution of subsidy in 2008 is through the producers of input, because administratively is simpler. In some area, the government has planned to conduct a pilot project in the distribution of subsidy directly to the farmers. In 2009 the application of integrated subsidy is directly delivered to the farmers.

The amount of credit needed for rice and maize farm is around 1.7 million rupiah to 1.8 million rupiah per-hectares. The component of credit consists of the amount of working capital for wage laborer, fertilizer and seed. The amount of credit for wage laborer is one million rupiah for any crop. Based on the above calculation, the government should prepare the amount of credit for the rice, maize and Soybean are 6.57 trillion rupiah, 3.02 trillion rupiah and 0.25 trillion rupiah respectively.

By assuming the amount of outstanding participants are 80%, the total of credit realization is 7.71 trillion rupiah. The interest rate that must be paid to the bank is 18% and the farmer only pay 9%, therefore the interest subsidy is 9%. Based on the above calculation, the total amount of subsidy for rice, maize and Soybean are 473 billion rupiah, 96 billion rupiah and 19 billion rupiah respectively.

For the fertilizer, in 2006 retail price of fertilizer is set at Rp.1.200/kg for urea Rp.1.050/kg for ammoniac sulfur, Rp.1.550/kg for phosphate and Rp.1.750/kg for compound fertilizer (NPK). In 2007 of the maximum retail price for rice and fertilizer increase 10%, 15% and 20%, the total amount of fertilizer that farmer need are 6.8 million ton (maximum retail price for rice and fertilizer increase by10%), 6.5 million ton (maximum retail price for rice and fertilizer increased by 15%) and 6.1 million ton (maximum retail price for rice and fertilizer increased by 20%). The total amount of subsidy for rice and fertilizer are 6.49 trillion rupiah (maximum retail price for rice and fertilizer increased by 10%), 6.46 trillion rupiah (maximum retail price for rice and fertilizer increased by 15%) and 6.41 trillion rupiah (maximum retail price for rice and fertilizer increased by 20%). For the seed subsidy, by assuming the total subsidized hectare are 50% and seed price subsidy is 50%, the total amount of seed subsidy for the rice, maize and Soya bean are 412 billion rupiah, 157 billion rupiah and 7 billion rupiah respectively.

Targeted site of Subsidy and the Implementation Schedule

The targeted site of subsidy is the producing center of commodity development in national and province level. In relation with management aspect, the targeted site of subsidy should be matched with administrative boundary. The economic scale of development depends on the commodity; it can be one commodity in one village or more. The target of subsidy beneficiaries is a whole of farmers' organization in the central producing areas of commodity development.

To implement the comprehensive model of integrated subsidy, the reschedule is set as the following:

(1). In 2007: develop an operational model of integrated subsidy and pilot project in some locations. Evaluation of pilot project can be done in one year because we have some experienced for similar scheme in the past (the farm credit, KUT)

(2). In 2008: preparation of infrastructure for integrated subsidy implementation, these are consisting of management and organizational preparation. In the same time, we implement integrated subsidy in selective areas and commodities with subsidy paid to the producers of input, and pilot project for the subsidy directly paid to the farmers.

(3). In 2009: application of integrated subsidy in broader areas.