

## Keynote Speech

# Governmental Policy on Agro-Industry For The 21st Century

Distinguished Guests, Seminar Participants, Ladies and Gentlemen,

Good Morning

It is a pleasure for me to be here this morning among such a large number of distinguished scientists and agribusiness practitioners, gathered here for the Seminar on Integrated Livestock Industry in Tropical Countries. I would like to take this opportunity then, to set the stage for this seminar by highlighting the Governmental Policy on Agro-Industry for the 21st Century.

Ladies and Gentlemen,

During the past decade, this country has witnessed rapid economic change of a fundamental nature as a consequence of a carefully planned National Development Program. Our economy has undergone a structural change which has been characterized by a relative decline in the contribution of agriculture to the Gross Domestic Product (GDP). In the seventies, agriculture's share of the GDP was slightly less than 50 percent. By the nineteen eighties, this share had fallen to around 20 percent of the GDP. During the same period, the industrial sector increased from around 9 percent to about 20 percent. It is important to note, however, that the share of the labor force active in agriculture remains quite high despite the sector's declining role.

The 66 percent of the total labor force employed by agriculture in the seventies decreased slightly to around 50 percent in the 1990s. At the same time, the generation of meaningful employment by the industrial sector has not achieved its target, rising from about 29.5 percent in the seventies to only about 36 percent in the 1990s. As a result, the industrial sector has not been very successful in absorbing the labor that has been displaced from agriculture. Furthermore, it is reported that about 60 percent of a products cost is allocated in the urban industrial sector because of its' more intensive capital investment. As a result, special strategies need to be formulated in order to facilitate the absorption of labor displaced from the agricultural sector which cannot be immediately integrated into the industrial sector. Therefore, the development of rural agro-industry becomes a virtual necessity.

Ladies and Gentlemen,

As all of us aware, we now stand on the threshold of the 21st century and, in light of the aforementioned challenges, it will not be sufficient for the agricultural sector to remain within the confined of its' traditional role of merely providing food and basic raw materials for the other sectors. As can be readily observed, the productivity and welfare of agricultural households lags far beyond other sectors and agriculture itself will have to generate meaningful employment in order to generate personal incomes comparable to the other sectors.

The economic bargaining position of agricultural households must be strengthened as well. Various studies have revealed that the farmer's share of product values is very small when compared the shares enjoyed by other actors involved in the marketing of agricultural products. This appears to be due, in large part, to the fact that farmers sell their products in their raw form without any pre-processing whatsoever.

Agro-industry can be loosely defined as the processing of agricultural products whereas agribusiness involves a total range of activities from production to processing and finally the marketing of the end products. Therefore, it would appear that the best alternative for improving the well being of rural households is to enable them to participate in agro-industry. With appropriate technology, agro-industry should allow small-holders to capture some of the value added currently being enjoyed totally by those outside the agricultural sector.

In order to achieve this, however, several constraints must be overcome. First, the scale of production of almost every agricultural commodity is currently uneconomical due to the widely scattered, small-scale nature of the production units. This, in turn, gives rise to low quality products which is further exacerbated by the products natural characteristics of bulkiness and perishability. A second constraint is the lack of appropriate

small-scale technology which would enable rural households to produce quality processed products. Thirdly, although total investment has increased significantly on a national scale in recent years, only a very small portion has flowed into the rural areas. This is especially true in Eastern Indonesia even though it is an area which has a high potential for the development of both livestock and fisheries activities. A primary problem is the generally unattractive investment climate in rural areas; generally inadequate, basic infrastructure; and, the high risks inherent in agriculture.

In order to overcome the difficulties, agro-industry developed in rural areas must be based on: (1) the principle of competitive advantage; (2) the capacity of the local people in supporting the existence of industrial processing in their area; (3) the availability of a continuous supply of raw materials; (4) the availability of credit; and, (5) the availability of rural infrastructure and services.

Ladies and Gentlemen,

In light of the dynamics of the challenges facing agro-industry, development strategies will need to be reviewed from time to time. That is why I consider this seminar to be timely and important. I hope that this workshop will be able to shed some light on the elements needed to reformulate existing agribusiness and serve as inputs for the decision makers concerned.

As for the uneconomical production units, many concerned intellectuals, practitioners and policy makers have been struggling with this problem for a long time. Various ideas have been placed on the table but not all of them, however, can be readily utilized. On the other hand, a number of them have been successfully implemented. As an illustration, the development model of a livestock feeding industry under the existing tree crop Nucleus Estate and Smallholder (NES) scheme. The mutual benefit to each actor is established as follows: (1) farmers provide raw material (corn, cassava, etc.) from their food crop area as feed ingredients; (2) the cooperative would act as the feed distributor in the area and also provide capital for the farmers through the provision of credit called "mini chip machine"; and, (3) the Nucleus (state owned company) provides their by-products to enrich the nutrient value of the feed.

The model illustrated above shows that the value added of agricultural commodities can be doubled by creating activities in agro-industrial subsectors. The activities have backward linkages to agriculture and other sectors in the rural economy and, at the same time, they increase farmers' incomes. Therefore, I urge the private sector to dispel any lingering doubts and embark upon similar schemes. Experience in neighboring countries has demonstrated that partnership schemes can be profitable to both parties as long as they are properly designed and managed. Such schemes will tend to promote land consolidation among neighboring farmers, allowing them to achieve a better economic scale of activity. In addition, close supervision by the nucleus will, to a certain extent, force the participating farmers to produce higher quality which will, in turn, provide better prices. The nucleus, on the other hand, is guaranteed a continuous supply of raw materials at relatively low cost.

Distinguished Guests and Participants,

It is our task together - intellectuals and practitioners - to make sure that the agribusiness/agro-industry sectors in our respective countries can stand on the same footing as the other sectors. Last, but not least, let me say once again what a pleasure and honor it has been for me to address this distinguished gathering. May I wish you all the best.

Thank you.

Minister of Agriculture,

Sjarifudin Baharsjah